

**HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING  
NOVEMBER 14, 2012  
APPLICATION SUMMARY**

NAME OF PROJECT: Colonial Hills Nursing Center

PROJECT NUMBER: CN1208-039

ADDRESS: 1965 Stewart Lane  
Louisville (Blount County), Tennessee 37777

LEGAL OWNER: Colonial Development, Inc.  
3570 Keith Street NW  
Cleveland (Bradley County), TN 37312

OPERATING ENTITY: Life Care Centers of America, Inc.  
3570 Keith Street NW  
Cleveland (Bradley County), TN 37312

CONTACT PERSON: Cindy S. Cross, Sr. Director of Legal Services  
(423) 473-5867

DATE FILED: August 14, 2012

PROJECT COST: \$21,239,000.00

FINANCING: Commercial Loan

REASON FOR FILING: Relocation and replacement of an approved but unimplemented Certificate of Need (CN1202-003A) for a 120 bed nursing home. **The project is not subject to the 125-bed Nursing Home Bed Pool for the 2012-2013 state fiscal year period.**

DESCRIPTION:

Colonial Hills Nursing Center is requesting Certificate of Need approval for relocation and replacement of the nursing home from 2034 Cochran Road, Maryville (Blount County) eleven miles away at 1965 Stewart Lane, Louisville (Blount County). The nursing home has historically operated as a two hundred-three (203) bed nursing home. The applicant currently has an outstanding but unimplemented CON (CN1202-003A) for the renovation of the existing nursing

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home at 2034 Cochran Road in Maryville (Blount County) which included reducing the licensed bed complement from 203 to 120. This application is essentially requesting that the approved but unimplemented CON be relocated. If this project is approved, the applicant will surrender CN1202-003.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW:

**CHANGE OF SITE**

**(a) Need-** The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed new site.

*The applicant states that the new site will improve accessibility for the residents and their families and is better suited to be part of a continuing care residential center (CCRC) development.*

*It appears that the application will meet this criterion.*

**(b) Economic Factors-**The applicant should show the proposed new site would be at least as economically beneficial to the population to be served as the original site.

*The applicant states that the charges proposed in this application and the previously approved outstanding CON (CN1202-003) are the same.*

*It appears that the application will meet this criterion.*

**(c) Contribution to the Orderly Development of Health Facilities and/or services.-**The applicant should address any potential delays that would be caused by the proposed change of site, and show that any delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

*The applicant notes that the site change will delay the completion of the nursing home project by 12 months. The applicant also notes that the current facility is closed so the delay will have no impact on existing nursing home patients. The applicant believes that the delay of constructing a new facility outweighs the earlier completion of renovating a 30 year old building.*

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*It appears that the application will meet this criterion.*

## **CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS**

- 1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.**

*This criterion does not apply.*

- 2. For relocation or replacement of an existing licensed health care institution:**
  - a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.**

*The applicant points out that the construction cost of this proposed project \$13,904,000 is \$3,939,000 higher than outstanding CON, CN1202-003; however the applicant believes the proposed project provides advantages over the previously approved project to include better accessibility, all new construction, increased visibility, and a location that would allow the potential development of a CCRC.*

*It appears that the application will meet this criterion.*

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.**

*The applicant points out that as a 203 bed nursing home the facility operated at an occupancy rate in the mid-90% range and was still operating at 89.2% occupancy in 2011 prior to the facility closing.*

*It appears that the application will meet this criterion.*

3. **For renovation or expansions of an existing licensed health care institution:**
  - a. **The applicant should demonstrate that there is an acceptable existing demand for the proposed project.**

*This criterion does not apply*

- b. **The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.**

*This criterion does not apply*

#### SUMMARY:

Colonial Hills Nursing Center has historically operated as a two hundred three (203) bed nursing home. All the beds were dually certified (Medicare and TennCare/Medicaid). In the current outstanding CON, CN1202-003A the applicant reported a recent survey conducted on December 4, 2011 resulted in the facility's Medicare certification being terminated by CMS, effective January 7, 2012. The applicant stated the certification termination has been appealed, but the appeal did not hold off the loss of certification. Thus, it is not possible to operate the facility pending the outcome of the appeal. According to the applicant, all the facility's residents were relocated and the operation of the facility temporarily suspended on February 2, 2012. A request was submitted to the Tennessee Department of Health, Licensing Health Care Facilities Board that the facility's license be placed in an inactive status at its May 2, 2012 meeting.

*Note to Agency members: The request for the facility license to be placed in an inactive status was scheduled for consideration at the Board's May 2, 2012 meeting, but at the request of Colonial Hills, the matter was postponed until the Board's September 2012 meeting. The request was on the September agenda, but the facility asked to defer the request until the January 2013 meeting. It was mutually determined by Colonial Hills and the Licensing Board that the facility should ask to defer the request and wait on the outcome of this application at the November HSDA Agency meeting. In the interim, the status of Colonial Hills' license remains active.*

*During the hearing for CN1202-003A at the Agency's May 2012 meeting, there was a great deal of discussion regarding the incidents that led to the termination of Medicare certification, the status of the management team in place at the time of the termination, qualifications and training for the new management team, and the steps expected to take*

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*place to change the culture of the proposed facility and the switch from being a Medicare/Medicaid certified facility to a Medicare-only certified facility. The transcript from the hearing is attached to the end of this summary.*

In February 2012 Colonial Hills Nursing Center (CHNS) filed a Certificate of Need (CON) application, CN1202-003A for renovation of the existing nursing home which included renovation of 67,689 square feet, 7,914 square feet of new construction, and reduction of 83 beds to become a one hundred twenty (120) bed Medicare-certified only nursing home. The facility was to have 90 private rooms and fifteen semi-private rooms. The application was approved at the May Agency meeting and is currently an outstanding but unimplemented CON.

This proposal is for the relocation and replacement of the current nursing home at a site 11 miles from the current site. The proposed facility will contain 79,000 square feet. There will be 80 private rooms and 20 semi-private rooms. The previous 203 bed facility had 23 private rooms and 90 semi-private rooms. The facility will have a rehab area of 4,089 square feet where physical therapy, speech therapy, and occupational therapy services will be offered. The facility will also include a variety of amenities to include three dayrooms, an activity room, ice cream and gift shop, library, beauty shop, outdoor courtyards, walking paths, gazebos, fine dining, and a private dining room. As in CN1202-003A, this proposed 120 bed nursing home will be Medicare-certified only.

The applicant believes that the proposed project has several advantages to renovating the current site to include:

- Increased accessibility-The current site is in a residential area while the proposed site is less than a mile from the intersection of I-140 and SR 333.
- More accessible to hospitals-The applicant expects the facility will serve a high volume of rehab patients, many of whom will be admitted directly from a hospital. This location is 20 minutes closer to Knoxville hospitals and 3 minutes closer to Blount Memorial Hospital.
- Construction of a new state of the art facility is superior to renovating a 30 year old building.
- The proposed site contains 10.67 acres and has the availability of land adjacent to the proposed site that creates the opportunity to develop a CCRC.

The applicant, Colonial Hills Nursing Center, is owned by Colonial Development, Inc., a Tennessee corporation which is owned 100% by Forrest L. Preston. The applicant's manager, Life Care Centers of America, Inc., manages approximately 220 skilled nursing centers in 28 states. Forrest L. Preston is the Chairman and 100% Sole Shareholder of Life Care Centers of America, Inc. The company, founded in 1976, is a for profit corporation incorporated in the State of Tennessee with its corporate headquarters in Cleveland, Tennessee. *An Organization Chart is provided in Attachment A.4.2.* Life Care operates and/or manages twenty-six (26) skilled nursing facilities in Tennessee (*see attachment B.I.1 for a listing of Life Care Tennessee facilities*). Forrest Preston is also involved in the ownership and management of five independent /assisted living facilities within the state of Tennessee.

Blount County is the service area of Colonial Hills Nursing Center. According to the Division of Health Statistics, Tennessee Department of Health (TDOH) the population of Blount County is expected to increase by 2.1% from 126,119 residents in calendar year (CY) 2012 to 128,747 residents in CY 2014. Age 60+ population presently account for approximately 27,923, or 22.1% of the county's total population. This population is expected to increase 5.7% to approximately 22.9% of the total county population compared to a state-wide average of 20.3% in CY 2014. The proportion of the Blount County population which is enrolled in TennCare is 14.9% as compared to the 19.1% TennCare enrollment statewide.

According to the Division of Health Statistics, Tennessee Department of Health (TDOH), the nursing home bed need formula calculates a Blount County total bed need of 972 nursing home beds. Blount County presently has six (6) existing nursing homes containing a total of 766 licensed beds. HSDA records reflect that there are no unimplemented Certificate of Need projects for additional nursing home beds in the county. Thus, the net nursing home bed need for Blount County is 206 beds. If the proposed project is approved and implemented, the total licensed nursing home beds in the county will be reduced by 83 beds to a total of 683 licensed nursing home beds.

The following tables will illustrate the historical utilization trends of nursing homes in Blount County:

**Blount County Nursing Home Utilization Trends, 2009-2011**

Nursing Home	2012 Lic.'d Beds	2009 Patient Days	2010 Patient Days	2011 Patient Days	'09- '11 % Change	2009 % Occ.	2010 % Occ.	2011 % Occ.
Asbury Place At Maryville	181	58,647	58,678	58,836	+0.3%	88.8%	88.8%	89.1%
Blount Mem. Transitional Care	76	25,575	26,292	25,509	-0.3%	92.2%	94.8%	92.0%
Colonial Hills Center(1)	203	70,769	70,769	66,114	-6.6%	95.5%	95.5%	89.2%
Kindred- Fairpark	75	26,886	26,253	26,153	-2.7%	98.2%	95.9%	95.5%
Kindred- Maryville	187	64,029	63,634	63,291	-1.2%	93.8%	93.2%	92.7%
Shannondale of Maryville	44	15,679	15,515	15,390	-1.8%	97.6%	96.6%	95.8%
<b>TOTAL</b>	<b>766</b>	<b>261,585</b>	<b>261,141</b>	<b>255,293</b>	<b>-2.4%</b>	<b>93.6%</b>	<b>93.4%</b>	<b>91.3%</b>

(1) Currently not in operation

Source: Joint Annual Reports, 209-2011, 2011 Provisional

The table above illustrates that nursing home utilization in Blount County has declined slightly between 2009 and 2011. Total patient days of nursing home services provided in 2009 was 262,141 which have declined 2.4% to 255,293 patient days in 2011. Of the six nursing homes in operation in Blount County between 2009 and 2011, five experienced decreases in utilization while the other one experienced a small increase in utilization. Overall Blount County nursing home occupancy has ranged between 91% and 94%. There are currently 766 licensed nursing home beds in Blount County but the 203 beds at Colonial Hills Center are not currently in operation.

As reported by the Department of Health Report and review of the Nursing Home Joint Annual Report, the Blount County nursing homes in 2010, had 120 Medicare certified beds and 529 dually certified beds for a total of 649 beds available to receive skilled nursing patients. The Blount County average daily census (ADC) for SNF Medicare patients was 170 patients. ADC for Skilled-Medicaid patients was 14, the ADC for Skilled Care patients being paid for by all other payors was 16. The total ADC for skilled nursing patients was 200. Of the 649 Medicare skilled beds in Blount County, these beds were used approximately 31% of the time for skilled patients. The ADC for NF (non-skilled which includes Medicaid and non-certified) is 515 patients. Thus, the total ADC for the county's 766 nursing home beds was 715 patients.

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With the historic high nursing home occupancies in the Blount County service area, the applicant was asked why the proposed project was reducing the number of beds. The applicant's response was that the highest level of patient satisfaction and operating efficiency is achieved in a facility containing 120 beds. The applicant goes on to state that if there is a shortage of nursing home beds in Blount County, Life Care will consider the feasibility of developing an additional nursing home for Blount County.

The applicant was also asked its rationale for switching from dually Medicare/Medicaid certified beds to Medicare only certified beds. The applicant indicated the decision to seek only Medicare certification was based on a combination of three factors: 1) the increasing availability of home and community based options for Medicaid patients; 2) the increasing clinical complexity of patients in nursing homes; and 3) the impact of the Agreed Order in the Linton case. Further explanation details are provided on page 1 of the supplemental response.

Because there was considerable discussion at the Agency meeting, where CN1202-003A was approved, due to the fact that the current facility is closed at least in part due to loss of Medicare certification, the applicant was also asked to discuss what steps would be taken to assure a quality driven culture in the proposed facility. The applicant responded by noting that prior to the closing of the facility a Plan of Correction was filed that included a proposed corrective action to each survey deficiency cited against it. The applicant states that its goal is to improve the coordination of care across the interdisciplinary team through better communication encompassing all transitions of care. The applicant is confident that the Colonial Hills replacement facility and other Life Care facilities will be catalysts of change in the nursing home profession. Further explanation details are provided on page 3 of the supplemental response.

The applicant's projected utilization for the first two years of operation is displayed in the chart below:

Year	Licensed Beds	Medicare certified Beds	SNF Medicare ADC	SNF Medicaid ADC	SNF All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
2015	120	120	15.8	0	5.5	16.3	37.6	31.3%
2016	120	120	36.5	0	16.0	43.4	95.9	79.9%

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By utilizing 2012-2014 as the period for construction of the proposed project, the applicant expects the ADC to initially average 37.6 patients per day in 120 beds during the first year of operation (2015). The ADC is estimated to grow to 95.9 patients per day by the second year of operation (2016). The corresponding facility occupancy is 31.3% in the first year and 79.9% in year two.

Per the Projected Data Chart, gross operating revenue for the 120 bed facility is \$6,826,211 (*\$498.01 per patient per day*) in the first year of the project (FY 2015), increasing to \$17,873,965 (*\$510.66 per patient per day*) in the second year of the project. In the initial year of the project, the applicant expects to realize unfavorable net operating income after capital expenditures of (\$2,335,500), improving to an unfavorable (\$359,663) during the second year of operations. The applicant states the patient payor mix for the Colonial Hills Nursing Center is projected as 68% Medicare in the first year. The estimated Medicare gross operating revenue for year 1 is \$4,664,907. The other components of the payor mix are 16% Private and 16% Insurance.

The Historical Data Chart for the 203 bed nursing home operation reports net Operating Incomes were \$1,126,433 in 2009, \$1,153,423 in 2010 and (\$431,097) in 2011.

Since the applicant facility will not be Medicaid-certified, the applicant has no plans to contract with TennCare MCOs.

Direct care nursing staff for the 120 bed nursing home in the second year of the project's opening will consist of a total of 93.9 full-time equivalent (FTE) employees, including 7.8 FTE registered nurses, 18.6 FTE licensed practical nurses, 32.0 FTE certified nurses' aides, 15.6 FTE physical therapists, 2.9 FTE speech therapists, 14.4 FTE occupational therapists, and 2.7 FTE social workers.

The total project cost is \$21,239,000.00, the largest portion of which is facility construction costs and contingency fund amounting to \$14,404,000 (68% of the total project cost), followed by acquisition of and preparation of site costs at \$2,600,000 (12% of the total project cost) and equipment costs at \$1,900,000 (9% of the total project cost). The remaining costs are comprised of Architectural and Engineering fees (\$740,000), Legal, Administrative and Consultant fees (\$60,000), Financing Costs and Fees (\$1,370,000) and CON filing fees (\$45,000). The construction cost of the project is estimated at \$176.00 per gross square foot. The median new construction cost per square foot for HSDA approved nursing home projects during 2009-2011 is \$167.31/square foot.

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The project will be financed by a commercial loan. A letter dated August 17, 2012 from the Vice President of Great Southern Bank indicates the Bank's history over the past decade of successfully working with Life Care of America's companies and expresses interest in providing financing for this project. The letter indicated support of a loan up to \$21,239,000 at 5% interest as of that day's rate with a term of five years.

A July 2, 2012 letter from DeCosimo Certified Public Accountants, the independent accounting firm which audits Life Care Centers of America's companies' financial records, attests that Life Care Centers of America's consolidated statements of cash flows are substantially in excess of the estimated operating capital needed for the proposed project and its financing requirements. This letter was submitted in lieu of audited financial statements for Life Care Centers of America.

*The applicant has submitted the required corporate and property documentation. Staff will have a copy of these documents available for member reference at the Agency meeting. Copies are also available for review at the Health Services and Development Agency office.*

Should the Agency vote to approve this project, the applicant is requesting an additional 12 months meaning the CON would expire in three years.

#### **CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT**

There are no other Letters of Intent, pending applications, or denied applications for this applicant.

#### **Outstanding Certificates of Need**

**Colonial Hills Nursing Center, CN1202-003A**, has an outstanding Certificate of Need which will expire on July 1, 2014. The CON was approved at the May 23, 2012 Agency meeting for the renovation of a nursing home. The number of licensed beds will be reduced by 83 from 203 to 120. The estimated project cost is **\$14,963,593.00**. *Project Status: If the current application, CN1208-039, is approved, this outstanding CON will be surrendered.*

*Life Care Centers of America, Inc. has a financial interest in this project and the following:*

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### Denied Applications

**Dayton Medical Investors, LLC d/b/a Life Care Center of Rhea County, CN0906-028D**, was denied at the November 18, 2009 Agency meeting. The application was for the relocation and replacement of an eighty-nine (89) bed nursing home from 7824 Rhea County Highway to an unaddressed site on Manufacturers Road; and the addition of thirty (30) Medicare skilled beds (increasing the total of beds from 89 to 119). Estimated project cost was **\$14,065,577**. *Reason for denial: The need for the facility has not been fully established, given the currently available licensed beds.*

**Dayton Medical Investors, LLC d/b/a Life Care Center of Rhea County, CN1003-013D**, was denied at the June 23, 2010 Agency meeting. The application was for the relocation and replacement of an eighty-nine (89) bed nursing home from 7824 Rhea County Highway to an unaddressed site on Manufacturers Road. Estimated project cost was **\$15,094,887.00**. *Reason for denial: The project fails to contribute to the orderly development of health care due to adverse effects upon the patients that its location would pose.*

### Outstanding Certificates of Need

**Dayton Medical Investors, LLC d/b/a Life Care Center of Rhea County, CN1101-004A**, has an outstanding Certificate of Need that will expire on June 1, 2013. The CON was approved at the April 27, 2011 Agency meeting for the relocation and replacement of an eighty-nine (89) bed nursing home from 7824 Rhea County Highway to an unaddressed site between 9961 and 10259 Rhea County Highway (HWY 27), Dayton (Rhea County), TN. Estimated project cost is **\$16,833,791.00**. *Project Status: HSDA staff requested a brief progress update that had not been received by the time this application was copied. The most recent information (over 6 months old) is that construction is underway. Foundations are complete and the underground utilities are being installed.*

**Chattanooga Medical Investors Limited Partnership, d/b/a Life Care Center of Ooltewah, CN1103-009**, has an outstanding Certificate of Need that will expire on September 1, 2013. The CON was approved at the July 27, 2011 Agency meeting for the relocation and replacement of nursing home from 455 North Highland Park Avenue, Chattanooga (Hamilton County), TN to a new unaddressed 8.4 acre site on the northeast corner of Mountain View Road and Snow Hill Road, Ooltewah (Hamilton County), Tennessee. The licensed beds will

**COLONIAL HILLS NURSING CENTER**

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be reduced from 153 beds to 120 beds. Estimated project cost is \$20,990,000.00. *Project Status: Construction on Life Care Center of Ooltewah has progressed on schedule and within budget. The building should be substantially complete in early December 2012. Installation of the furniture, fixtures and equipment is scheduled to be complete by the end of December.*

**CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:**

There are no Letters of Intent, denied or pending applications or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

**PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.**

MAF  
10/29/2012

# **LETTER OF INTENT**



# LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

2012 AUG -9 AM 10:00

The Publication of Intent is to be published in The Daily Times which is a newspaper of  
(Name of Newspaper)  
general circulation in Blount, Tennessee, on or before August 10, 2012,  
(County) (Month / day) (Year)  
for one day.

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This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Colonial Hills Nursing Center  
(Name of Applicant)

Nursing Home  
(Facility Type-Existing)

owned by: Colonial Hills Real Estate Investors, LLC and operated by Colonial Development, Inc., with an ownership type of corporation and managed by: Life Care Centers of America, Inc. intends to file an application for a Certificate of Need for the relocation and replacement of a nursing home (Colonial Hills Nursing Center) currently located at 2034 Cochran Road, Maryville, Tennessee 37803. The replacement facility will be located on an approximate 10.67 acre site located at 1965 Stewart Lane, Louisville, Tennessee 37777. The number of licensed beds will be 120. No services will be initiated or discontinued and no major medical equipment is requested. The estimated project cost is \$21,194,000. If this application is approved, CN1202-003A for renovation of the existing facility will be relinquished.

The anticipated date of filing the application is: August 15, 2012.

The contact person for this project is Cindy S. Cross Sr. Director of Legal Transactional  
(Contact Name) (Title)

who may be reached at: Life Care Centers of America, Inc. 3570 Keith Street, NW  
(Address)

Cleveland  
(City)

Tennessee  
(State)

37312  
(Zip Code)

423-473-5867  
(Area Code / Phone Number)

Colonial Development, Inc.

By: Cindy S. Cross  
(Signature) Cindy S. Cross, Assistant Secretary

8/8/12  
(Date)

cindy\_cross@lcca.com  
(E-mail Address)

=====

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

**Health Services and Development Agency  
Andrew Jackson Building  
500 Deaderick Street, Suite 850  
Nashville, Tennessee 37243**

=====

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

**ORIGINAL**  
**APPLICATION**

1. **Name of Facility, Agency, or Institution**

**Colonial Hills Nursing Center**

Name

**1965 Stewart Lane**

Street or Route

**Blount**

County

**Louisville**

City

**Tennessee**

State

**37777**

Zip Code

2. **Contact Person Available for Responses to Questions**

**Cindy S. Cross**

Name

**Sr. Director of Legal Services**

Title

**Life Care Centers of America, Inc.**

Company Name

**cindy\_cross@lcca@com**

Email Address

**3570 Keith Street NW**

Street or Route

**Cleveland**

City

**Tennessee**

State

**37312**

Zip Code

**Assistant Secretary**

Association with Owner

**423-473-5867**

Phone Number

**423-339-8339**

Fax Number

3. **Owner of the Facility, Agency or Institution**

**Colonial Development, Inc.**

Name

**423-473-5867**

Phone Number

**3570 Keith Street NW**

Street or Route

**Bradley**

County

**Cleveland**

City

**Tennessee**

State

**37312**

Zip Code

4. **Type of Ownership or Control (Check One)**

A. Sole Proprietorship

B. Partnership

C. Limited Partnership

D. Corporation (For Profit)

E. Corporation (Not-for-Profit)

F. Government (State of TN or  
Political Subdivision)

G. Joint Venture

H. Limited Liability Company

I. Other

☒

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RESPONSE: Attachment A.4.1 is a copy of the charter, and A.4.2 is a copy of the corporate organization chart.

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.



5. Name of Management/operating Entity (If Applicable)

**Life Care Centers of America, Inc**

Name

**3570 Keith Street, NW**

Street or Route

**Bradley**

County

**Cleveland**

City

**Tennessee**

State

**37312**

Zip Code

**RESPONSE:** A copy of the form management agreement is presented in **Attachment A.5.**

**PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.**

6. Legal Interest in the Site of the Institution (Check One)

A. Ownership

B. Option to Purchase

C. Lease of 5 Years

D. Option to Lease

E. Other (purchase & sale agreement)

**X**

**PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.**

**RESPONSE:** Attachment A.6 is a copy of the purchase and sale agreement..

7. Type of Institution (Check as appropriate---more than one response may apply)

A. Hospital (Specify)

B. Ambulatory Surgical Treatment Center (ASTC) Multi-Specialty

C. ASTC, Single Specialty

D. Home Health Organization

E. Hospice

F. Mental Health Hospital

G. Mental Health Residential Treatment Facility

H. Mental Retardation Institution Habilitation Facility (ICF/MR)

I. Nursing Home

J. Outpatient Diagnostic Center

K. Recuperation Center

L. Rehabilitation Facility

M. Residential Hospice

N. Non-Residential Methadone Facility

O. Birthing Center

P. Other Outpatient Facility (Specify)

Q. Other (Specify)

**X**

8. **Purpose of Review (Check) as appropriate - - more than one response may apply)**

- |  |          |  |          |
|--|----------|--|----------|
| A. New Institution   |          | H. Change in Beds Complement   |          |
| B. Replacement/Existing Facility   | <u>X</u> | [Please note the type of change by underlining the appropriate response: |          |
| C. Modification/Existing Facility  |          | Increase, Decrease,  |          |
| D. Initiation of Health Care Service as defined in TCA § 68-11-1607(4) (Specify) _____ |          | Designation, Distribution, Conversion, Relocation]                       |          |
| E. Discontinuance of OB Services   |          | I. Change of Location  | <u>X</u> |
| F. Acquisition of Equipment  |          | J. Other (Specify)   |          |

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**Bed Complement Data**

*Please indicate current and proposed distribution and certification of facility beds.*

	Current Beds		Staffed Beds	Beds Proposed	TOTAL Beds at Completion
	Licensed	*CON			
A Medical					
B Surgical					
C Long-Term Care Hospital					
D Obstetrical					
E ICU/CCU					
F Neonatal					
G Pediatric					
H Adult Psychiatric					
I Geriatric Psychiatric					
J Child/Adolescent Psychiatric					
K Rehabilitation					
L Nursing Facility (non-Medicare)					
M Nursing Facility Level 1 (Medicaid)					
N Nursing Facility Level 2 (Medicare)	120		0	120	120
O Nursing Facility Level 2 (dually certified) Medicaid/Medicare) See Note					
P ICF/MR					
Q Adult Chemical Dependency					
R Child and Adolescent Chemical					
S Swing Beds					
T Mental Health Residential Treatment					
U Residential Hospice					
Residential Home for the Aged					
<b>TOTAL</b>	120		0	120	120

\*CON-Beds approved but not yet in service

10.	<b>Medicare Provider Number Certification Type</b>	Will Apply	
11.	<b>Medicaid Provider Number Certification Type</b>	Will Not Apply	
12.	<p><b>If this is a new facility, will certification be sought for Medicare and/or Medicaid?</b>  <b>RESPONSE:</b> The facility will apply for a Medicare provider number.</p>		
13.	<p><b><i>Identify all TennCare Managed Care Organizations/Behavioral Health Organizations (MCOs/BHOs) operating in the proposed service area. Will this project involve the treatment of TennCare participants? If the response to this item is yes, please identify all MCOs/BHOs with which the applicant has contracted or plans to contract.</i></b></p> <p><b><i>Discuss any out-of-network relationships in place with MCOs/BHOs in the area.</i></b></p> <p><b>RESPONSE:</b> The facility will not be a TennCare provider.</p>		

**NOTE:** **Section B** is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. **Section C** addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. **Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.**

## **SECTION B: PROJECT DESCRIPTION**

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

- I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of the proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility and staffing.

**RESPONSE:** Description: This application is for the relocation of Colonial Hills Nursing Center from 2034 Cochran Road, Maryville (Blount County), Tennessee to 1965 Steward Lane, Louisville (Blount County), Tennessee, a distance of approximately 11 miles. Colonial Hills Nursing Center holds a Certificate of Need (CN1202-003A) for a major renovation involving 67,689 square feet space, 7,914 square feet of new construction, site improvements, and a reduction of the licensed beds from 203 to 120. This application seeks to relocate and replace the facility at a new site for the reasons described below. With the approval of this application, Certificate of Need CN1202-003A will be surrendered.

Ownership Structure: Colonial Hills Nursing Center is owned by Colonial Development, Inc., and is managed by Life Care Centers of America, Inc. Both corporations are incorporated in Tennessee with headquarters in Cleveland, Tennessee and owned (100%) by Forrest L. Preston. Forrest L. Preston is the Chairman and sole shareholder of Life Care Centers of America, Inc. and Colonial Development, Inc. He also is involved in the ownership and management of five independent/assisted living facilities within the state of Tennessee. Life Care Centers of America, Inc. (Life Care) manages approximately 220 nursing centers in 28 states. Life Care operates and/or manages 26 nursing facilities in the state of Tennessee. (Please see **Attachment B.I.1** for a listing of all Life Care facilities in Tennessee.)

Service Area: The primary service area is defined as Blount County which is expected to have a population of 128,747 in 2014.

Existing Resources: Six (6) nursing homes, with a total of 766 beds, are located in the service area, Blount County. During 2010, these six nursing homes reported an average occupancy rate of 93.3 percent.

Need: The proposed site is much better suited for this use than the current site. The proposed new site has the following advantages over the existing site: (1) increased accessibility, (2) new construction verse renovation, and (3) increased visibility. These advantages are reviewed in detail in Section C of this application. In addition, the new site has is suited for the potential development of a Continuum of Care Retirement Community (CCRC).

Project Cost/Funding: The cost of the project is estimated to be \$21,239,000, and will be funded by a commercial loan from Great Southern Bank. A letter from Great Southern Bank stating its willingness to fund this project is presented in Attachment C. Economic Feasibility.2.

Financial Feasibility: The project is financially feasible. The proposed facility is expected to have a positive income from operations during its second year of operation.

Staffing: During year two, the expected staffing is 145.2 FTES and the clinical staffing is 93.9 FTEs. The staffing of the unit is reviewed in detail in the Contribution to the Orderly Development of Health Care section of this application.

**I. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.**

**A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applicants with hospital projects (construction cost in excess of \$5 million) and other facility projects (construction cost in excess of \$2 million) should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary**

areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

If the project involves none of the above, describe the development of the proposal.

**RESPONSE:** The chart has been completed. A letter from the project architect stating the building will be built to meet or exceed applicable codes, is presented in **Attachment Project Description II.A.**

Colonial Hills Nursing Center will offer a variety of amenities. These include three dayrooms, an activity room, ice cream and gift shop, library, beauty shop, outdoor courtyards, walking paths, gazebos, fine dining, and a private dining room.

A variety of resident room configurations will be offered. There will be 80 private rooms, and 20 semi-private rooms are planned. Each resident will have a direct phone line and TV.

Large therapy spaces will be provided. Physical therapy, speech therapy, and occupational therapy services will be offered. Private treatment rooms will be available. State of the art therapy equipment will be included in the FF&E package. An outdoor therapy courtyard with a variety of walking surfaces and transitions, will be located adjacent to the therapy gym.

The proposed 79,000 SF facility will be constructed on a relatively flat 10.67 acre site located in Louisville, Blount County, Tennessee. The property is presently being surveyed and all preliminary information indicate this land is adequate to provide all programmatic elements of the facility. Parking quantities and landscape requirements will be designed to accent the site, and will exceed the local zoning code.

The facility in this project will be constructed under the codes adopted by the local municipality (the International Building Code) and the Tennessee Department of Health (the Standard Building Code). As defined by the 1999 Standard Building

Code, the Occupancy for this building will be Institutional – Unrestrained, and the type of construction will be Type V protected – fully sprinklered.

This single story building will be framed with metal stud walls and wood trusses. The exterior facad of the structure has not yet been determined. However, we propose brick or simulated stone cladding, with fiber cement siding and trim accents. The proposed roofing material is an architectural fiberglass or asphalt shingle with prefinished aluminum gutters and downspouts. All resident windows will incorporate code mandated egress requirements. The proposed building also incorporates a large main entry Porte Cochere that allows three drive lanes of vehicular traffic to insuring easy all weather access to the main entry.

The chart has been completed. A letter from the project architect stating the building will be built to meet or exceed applicable codes, is presented in

**Attachment Project Description II.A.**

- B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.**

**RESPONSE:** A certificate of need (CN1202-003A) for Colonial Hills Nursing Center was recently approved to reduce the number of license beds from 203 to 120. After this project is approved, the facility will contain 120 licensed beds.

Table 1  
Colonial Hills Nursing Center  
Bed Allocation by Type of Room

	Private Room	Semi-Private Room
Approved	90	15
Proposed	80	20

# SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

A. Unit / Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage			Proposed Final Cost/ SF		
					Renovated	New	Total	Renovated	New	Total
Patient Rooms	Floor 1	28,700	-	Floor 1		31,310	31,310			
Administration	Floor 1	6,030	-	Floor 1		3,272	3,272			
Rehab	Floor 1	4,389	-	Floor 1		4,089	4,089			
Food Service	Floor 1	1,590	-	Floor 1		2,066	2,066			
Laundry	Floor 1	800	-	Floor 1		796	796			
Patient Care Support	Floor 1	6,100	-	Floor 1		5,648	5,648			
Activities & Lounge	Floor 1	3,920	-	Floor 1		3,875	3,875			
Storage	Floor 1	750	-	Floor 1		1,225	1,225			
Dining	Floor 1	3,790	-	Floor 1		4,024	4,024			
B. Unit/Dept. GSF Sub-Total		56,069				56,314	56,314			
C. Mechanical/ Electrical GSF		1,889				2,483	2,483			
D. Circulation /Structure GSF		17,762				20,203	20,203			
E. Total GSF		75,603				79,000	79,000		\$176.00	\$13,904,000

**NOTE:** The existing square feet (75,603) is the amount of space contained in CN 1202-003 which was recently approved by the HSDA. The existing facility, which is closed, contains 67,693 square feet of space.



**C. As the applicant, describe your need to provide the following health care services (if applicable to this application):**

1. **Adult Psychiatric Services**
2. **Alcohol and Drug Treatment for Adolescents (exceeding 28 days)**
3. **Birthing Center**
4. **Burn Units**
5. **Cardiac Catheterization Services**
6. **Child and Adolescent Psychiatric Services**
7. **Extracorporeal Lithotripsy**
8. **Home Health Services**
9. **Hospice Services**
10. **Residential Hospice**
11. **ICF/MR Services**
12. **Long-term Care Services**
13. **Magnetic Resonance Imaging (MRI)**
14. **Mental Health Residential Treatment**
15. **Neonatal Intensive Care Unit**
16. **Non-Residential Methadone Treatment Centers**
17. **Open Heart Surgery**
18. **Outpatient Surgery**
19. **Positron Emission Tomography**
20. **Radiation Therapy/Linear Accelerator**
21. **Rehabilitation Services**
22. **Swing Beds**

**RESPONSE:** Not Applicable

**D. Describe the need to change location or replace an existing facility.**

**RESPONSE:** The proposed site offer several advantages over the current location. which include:

- The proposed site will significantly increase the accessibility of Colonial Hills Nursing Center to the residents of the service area. The current site is located in a residential area, approximately 1.1 miles off SR 336. To reach the current site from SR 336, one must travel Forest Hill Road to reach Cochran Road. Forest Hill Road is very curvy. It contains five 90 degree turns in approximately one mile before reaching Cochran Road. The proposed site is located approximately 0.75 mile from the intersection of I-140 and SR 333.

The proposed facility will treat a high volume of rehab patients. During the second year of operation, approximately eighty percent (80%) of the patient

days are expected to be rehab. Most all of these patients will be admitted directly from a hospital. The proposed site is approximately 20 minutes closer to the Knoxville hospitals than the current site and is approximately three minutes closer to Blount Memorial Hospital. During 2010, over 33 percent of Blount County residents admitted to a hospital were admitted to a hospital in Knoxville. Blount County residents who need post-acute care will be well served by the facility at the proposed location.

- The approved application contained 67,689 (90%) sq. ft. of renovation and only 7,914 (10%) sq. ft. of new construction. This application is for a new building. All new construction permits will be obtained for the erection of a state-of-the-art building. The structural components of the existing building limit the modifications which need to be made to the existing facility. The existing building contains eight foot ceilings which cannot be increased. The proposed new facility will allow for ceiling heights up to 10 feet. Even after the major renovation is completed, the existing facility would remain a 30 year old facility.
- The current site is located in a residential area and is not visible from any major highway. The proposed site is a short distance from I-140 and SR 333 and can be seen from both of these highways.
- In addition, the availability of land adjacent to the proposed site creates the opportunity to develop a CCRC in conjunction with the nursing home facility.

**E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of \$1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:**

- 1. For fixed-site major medical equipment (not replacing existing equipment):**
  - a. Describe the new equipment, including:**
    - 1. Total cost; (As defined by Agency Rule).**
    - 2. Expected useful life;**
    - 3. List of clinical applications to be provided; and**
    - 4. Documentation of FDA approval.**

**b. Provide current and proposed schedules of operations.**

**RESPONSE:** Not applicable. This project does not involve any major medical equipment.

**2. For mobile major medical equipment:**

- a. List all sites that will be served;**
- b. Provide current and/or proposed schedule of operations;**
- c. Provide the lease or contract cost.**
- d. Provide the fair market value of the equipment; and**
- e. List the owner for the equipment.**

**RESPONSE:** Not applicable

- 3. Indicate applicant's legal interest in equipment (i.e., purchase, lease, etc.) In case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.**

**RESPONSE:** Not applicable

**III. (A) Attach a copy of the plot plan of the site on 8 ½" x 11" sheet of white paper which must include:**

- 1. Size of site (in acres);**
  - 2. Location of structure on the site; and**
  - 3. Location of the proposed construction.**
  - 4. Names of streets, roads or highways that cross or border the site.**
- Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.**

**RESPONSE:** The site plan is presented in **Attachment B.III.(A).**

- (B) 1. Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.**

- **RESPONSE:** At the present time, no city bus routes serve Maryville. The proposed site is located approximately 0.75 mile from the intersection of I-140 and SR 333, and easily accessible to the residents of Blount County.

**IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment**

areas, etc. on 8 ½ x 11" sheet of white paper.

**Note: DO NOT SUBMIT BLUEPRINTS.** Simple line drawing should be submitted and need not be drawn to scale.

**RESPONSE:** See Attachment B.IV.

**V. For a Home Health Agency or Hospice, identify:**

1. Existing service area by County;
2. Proposed service area by County;
3. A parent or primary service provider;
4. Existing branches; and
5. Proposed branches.

**RESPONSE:** Not Applicable.

## **SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED**

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan (Guidelines for Growth), developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)."

### **QUESTIONS**

#### **NEED**

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth.
  - a. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9) here.

**RESPONSE:** Two guidelines are applicable to this application: (1) Nursing Home Services, and (2) The Construction, Renovation, Expansion, and Replacement of Health Care Institutions.

The five principals outlined in the State Health Plan of achieving better health are:

1. The purpose of the State Health Plan is to improve the health of Tennesseans;
2. Every citizen should have reasonable access to health care;
3. The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies, and the continued development of the state's health care system;
4. Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers; and
5. The state should support the development, recruitment, and retention of a sufficient and quality health care workforce.

This project is, in effect, the relocation of the renovated facility approved in CN1202-003A, but will result in being a completely new construction rather than an extensive renovation of an existing structure.

The implementation of this proposed project furthers the ability of the residents of Blount County to achieve better health. The current facility, which was constructed in 1981, will be replaced with a new state-of-art facility containing 79,000 sq. ft. which is more accessible than the current site.

With the closing of Colonial Hills Nursing Center, the number of nursing home beds in Blount County was decreased from 766 to 563. The implementation of this project will restore 120 of these beds, increasing the access to nursing home beds in Blount County. If there is a shortage of nursing home beds in Blount County after the implementation of this project, Life Care Centers of America, Inc. will study the feasibility of adding additional beds in Blount County. The proposed state-of- the art facility will make it easier to recruit and retain a quality health care workforce.

In summary, this will benefit the residents of Blount County with improved nursing home accommodations and expanded rehab capabilities. Since the number of beds

does not change, there should not be any adverse impact on nursing home providers in the service area.

## **NURSING HOME SERVICES**

Public Chapter No. 1112, Senate Bill No. 2463, which passed during the 1998 legislative sessions, amended and changed the codes sections establishing the bed need formula that the Health Facilities Commission must follow when granting certificates of need for nursing home beds in Tennessee. During a fiscal year (July 1 – June 30), the Commission shall issue no more than the designated number of Medicare skilled nursing facility beds for applicants filing for a certificate of need. The number of Medicare skilled nursing facility beds issued shall not exceed the allocated number of beds for each applicant. The applicant must also specify in the application the skilled services to be provided and how the applicant intends to provide such services.

### **A. Need**

1. According to TCA 68-11-108, the needs for nursing home beds shall be determined by apply the following population-based statistical methodology:

$$\begin{aligned} \text{County bed need} = & .0005 \times \text{pop. 65 and under, plus} \\ & .0120 \times \text{pop. 65-74, plus} \\ & .0600 \times \text{pop. 75-84, plus} \\ & .1500 \times \text{pop. 85, plus} \end{aligned}$$

2. The need for nursing home beds shall be projected two years into the future from the current year, as calculated by the Department of Health.

**RESPONSE:** Using the methodology outlined in item 1, and the population estimates developed by the Department of Health, the nursing home bed need was calculated for 2012, 2014 and 2015.

**Table 2**  
**Projected Bed Need – Blount County**

Age Group	Use Rate	Population			Bed Need		
		2012	2014	2015	2012	2014	2015
Under 65	.0005	106,117	107,426	108,120	53.1	53.7	54.1
65-74	.0120	11,547	12,543	13,077	138.6	150.5	156.9
75-84	.0600	5,852	6,096	6,221	351.2	365.8	373.3
85+	.1500	2,603	2,682	2,725	408.8	402.3	408.8
Total	-	126,119	128,747	130,143	951.4	972.3	993.1
Existing Licensed Beds					766	766	766
Outstanding CON Beds					0	0	0
Additional Bed Need					186	206	227

Source: Tennessee Population Projects 2010 – 2020, Office of Health Statistics

3. **The source of the current supply and utilization of licensed and CON approved nursing home beds shall be the inventory of nursing home beds maintained by the Department of Health.**

**RESPONSE:** An inventory of the licensed nursing home beds in Blount County is presented in the following table. There are no outstanding CONs for nursing home beds in Blount County. The utilization of these nursing homes for the past three years is presented in **Attachment C, Need.5 Historical Utilization Data**. During 2010, these nursing homes reported an average occupancy rate of 93.2 percent.

**Table 3**  
**Inventory Nursing Home Beds – Blount County**

Facility	Licensed Beds
Asbury Place at Maryville	181
Blount Memorial Transitional Care Center	76
Colonial Hills Nursing Center *	203
Fairpark Healthcare Center	75
Kindred Transitional Care & Rehabilitation	187
Shannondale of Maryville Health Care	44
Total	766

\* Operations suspended February 2, 2012

4. **“Service Area” shall mean the county or counties represented on an application as reasonable area to which a health care institution intends to provide services and/or in which the majority of its service recipients reside. A majority of the population of a service area for any nursing home should reside within 30 minutes travel time from that facility.**

**RESPONSE:** The service area for this project is Blount County. During 2010, 75 percent of the patients in Colonial Hills Nursing Center were residents of Blount County. Patients from no other county accounted for more than 14 percent of the admissions. The majority of the population of Blount County resides within 30 minutes of the current and proposed site.

5. **The Health Facilities Commission may consider approving new nursing home beds in excess of the need standard for a service area, but the following criteria must be considered:**

- a. All outstanding CON projects in the proposed service area resulting in a net increase beds are licensed and in operation, and

**RESPONSE:** Not applicable

- b. All nursing homes that serve the same service area population as the applicant have an annualized occupancy in excess of 90%.

**RESPONSE:** Not applicable

**B. Occupancy and Size Standards:**

1. A nursing home should maintain an average annual occupancy rate for all licensed beds of at least 90 percent after two years of operation.

**RESPONSE:** The applicant is projecting an occupancy rate in excess of 90 percent during its second year of operation.

2. There shall be no additional nursing home beds approved for a service area unless each existing facility with 50 beds or more has achieved an average annual occupancy rate of 95 percent. The circumstances of any nursing home, which has been identified by the Regional Administrator, as consistently non-complying with quality assurance regulations shall be considered in determining the service areas, average occupancy rates.

**RESPONSE:** Not applicable

3. A nursing home seeking approval to expand its bed capacity must have maintained an occupancy of 95 percent for the previous year.

**RESPONSE:** Not applicable – no additional beds are requested.

4. A free-standing nursing home shall a capacity of at least 30 beds in order to be approved. The Health Facilities Commission may make an exception to this standard. A facility of less than 30 beds may be located in a sparsely populated rural area where the population is not sufficient to justify a larger facility. Also, a project may be developed in conjunction with a retirement center where only a limited number of beds are needed for the residents of that retirement center.

**RESPONSE:** The facility will contain 120 beds.



## **CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS**

- 1. Any project that includes the addition of beds, services, or medical equipment will be review under the standards for those specific activities.**

**RESPONSE:** The bed criteria section of the application has been completed.

- 2. For relocation or replacement of an existing licensed health care institution:**

- a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.**

**RESPONSE:** The applicant has recently received a certificate for the major renovation of its existing facility. The construction cost for the renovation was estimated to be \$9,965,000 or \$131.81/sq. ft. A new facility will be built on the proposed site. The estimated construction cost for the new facility is \$13,904,000 or \$173.00/sq. ft. Renovation and remaining at the current site is the lower cost option.

However, the relocation option offers the following advantages: (1) better accessibility, (2) all new construction, and (3) increased visibility. In addition, the new site is better suited to the potential development of a CCRC.

- b. The application should demonstrate that there is an acceptable existing or projected future demand for the proposed project.**

**Response:** The nursing homes in Blount County have historically reported high occupancy rates. Between 2008 and 2010, these nursing homes reported a 93.4 average occupancy rate.

Colonial Hills Nursing Center has historically run a high census. The average occupancy rate and payor mix data for the past four years is presented in the following tables.

Table 4  
Colonial Hills Nursing Center  
Occupancy Data

Year	Average Daily Census	Average Occupancy Rate
2008	196.6	96.8
2009	195.2	96.2
2010	192.3	94.7
2011	181.1	89.2

**3. For renovation or expansions of existing licensed health care institution:**

- a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.**

**RESPONSE:** All of the nursing homes in the service area are highly utilized (93.2 percent in 2010). The population of Blount County is aging. Between 2012 and 2015, the over 60 years of age group is expected to increase by 9 percent. This increase would further increase the demand for nursing home services in the service area.

- b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.**

**RESPONSE:** Not Applicable

**CHANGE OF SITE**

- (a) Need. - The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed new site.**

**Response:** The health care needs of the service area will be better served by the relocation of Colonial Hills Nursing Center to the proposed location. The new site will improve accessibility for the residents and their families. The new site is also better suited to be part of a CCRC development which addresses the needs of the rapidly increasing elderly population.

- (b) Economic Factors – The applicant should show the proposed new site would be at least as economically beneficial to the population to be served as the original site.**

Response: The economic benefits to the residents of the service area will not change as a result of this relocation. Charges contained in the previous application and this application have not changed.

- (c) Contribution to the Orderly Development of Health Facilities and/or services. – The applicant should address any potential delays that would be caused by the proposed change of site, and show that any delays are outweighed by the benefit that will be gained from the change of site by the population to be served.**

Response: The delay caused by the site change and the construction of a new facility is approximately 12 months. Since the facility is presently closed, any delay caused by the change of site will not negatively affect any nursing home residents. The advantages of new facility compared to the renovation of a 30 year old building will outweigh any in convenience caused by the longer time required to complete the project.

- 2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.**

**RESPONSE:** This project is consistent with Life Care's mission of being responsive to the long-term health care needs of the community, and directing its resources to meet those needs in a cost effective manner.

- 3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).**

**RESPONSE:** Blount County is the primary service area. Blount County is expected to have a census of 128,747 in 2014. During 2010, 75 percent of the patients at Colonial Hills Nursing Center were residents of Blount County. A service area map is presented in **Attachment C. Need 3.**

- 4. A. Describe the demographics of the population to be served by this proposal.**

**RESPONSE:** The service area population is estimated to be 128,747 in 2014. A selected demographic profile of the service area, compared to the state of Tennessee, is shown in the

following table. In summary, the demographics of the service area are (1) 22.9 percent of the population is expected to be older than 60 years in 2014, (2) population of those over 60 years of age is expected to increase by 5.7 percent from 2012 - 2014, and (3) 14.6 percent of the population is enrolled in TennCare.

**Table 5**  
**Demographic Profile**  
**Blount County, Tennessee**

	Blount County	State of TN Total
Total Population-Current Year -2012	126,119	6,361,070
Total Population-Projected Year -2014	128,747	6,470,546
Total Population-% change	2.1	1.7
Age 60 and over Population - 2012	27,923	1,245,696
Age 60 and over Population - 2014	29,511	1,314,131
Age 60 and over Population - % change 2012-2014	5.7	5.5
Age 60 and over Population as % of Total Population 2014	22.9	20.3
Age 60 and over Population - 2016	31,079	1,384,385
Age 60 and over Population - % change 2012-16	11.1	11.1
Age 60 and over Population as % of Total Population 2016	23.7	21.1
Median Household Income	\$47,322	\$43,314
TennCare Enrollees	18,783	1,214,743
TennCare Enrollees as % of Total	14.6	18.7
Persons Below Poverty Level	14,392	1,047,107
Persons Below Poverty Level as % of Total	11.7	16.5

Source: (1) Tennessee Population Projects 2000 – 2010 & 2010 - 2020 Office of Health Statistics, (2) U. S. Census Bureau, State of Tennessee Bureau of TennCare website

- B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.**

**RESPONSE:** During 2010, 89 percent of the residents of Colonial Hills Nursing Center were over 60 year of age. The facility will primarily serve the elderly population. In 2014, 22.9 percent of the population of the service area is expected to be over 60 years of age. Between 2004 and 2014, the over 60 years of age is expected to increase by over 34.0 percent.

Table 6  
Blount County – Population Projections

Age	2004	2014	2004 – 2014 % Increase
Under 60	91,390	99,236	8.6
60 – 64	5,957	8,190	37.5
65 – 74	8,530	12,543	47.0
75 – 84	5,490	6,096	11.0
85+	2,038	2,682	31.6
Subtotal (60 +)	22,015	29,511	34.0
Total	113,405	128,747	13.5

Source: Tennessee Population Projects 2000 – 2010 & 2010 – 2020,  
Office of Health Statistics

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc.

**RESPONSE:** The utilization of each of the nursing home providers in the service area for the past three years is presented in **Attachment C, Need.5 Historical Utilization Data**. During each of these years, the six nursing homes in Blount reported an average occupancy rate above 93 percent.

Table 7  
Blount County All Nursing Homes - Utilization  
2008 -2010

Year	Licensed Beds	Patient Days	Occupancy Rate
2008	766	261,085	93.4
2009	766	262,107	93.7
2010	766	260,537	93.2

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization for each of the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Response: Life Care has recently opened several new nursing home facilities. The utilization projected for the first and second years of operation was based on Life Care's experience in opening these facilities. The annual utilization is expected to be 13,707 patient days during the first year of operation, and 35,002 patient days during the second year.

The patient days were projected using an average increase in the average daily census of 5 patients per month during year one, and 4 per month in year two until a 90 percent occupancy is achieved. New nursing homes usually have a waiting list of patients when the facility opens. This waiting list is expected to be in the range of 8 - 10 patients.

The following factors were considered in projecting the utilization of this facility:

- The size of the facility is 120 beds.
- The facility will be located in an urban setting.
- Patients will not be transferred from an existing facility.
- The facility will provide skilled care.

Table 8  
Colonial Hills Nursing Center  
Utilization 2008 - 2016

Year	Licensed Beds	Medicare-certified beds	Medicare/Medicaid-dually certified beds	SNF Medicare ADC	SNF Medicaid ADC	SNF-All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
2008	203	-	203	42.9	1.1	0.9	151.7	196.6	96.8
2009	203	-	203	37.9	3.0	-	154.3	195.2	96.2
2010	203	-	203	42.4	-	1.3	148.6	192.3	94.7
2011	203	-	203				139.9	181.1	89.2
2012	Closed								
2013	Closed								
2014	Closed								
2015	120	120	-	15.8	0	5.5	16.3	37.6	31.3
2016	120	120	-	36.5	0	16.0	43.4	95.9	79.9

## ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

- All projects should have a project cost of at least \$3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)

**RESPONSE:** Excluding the filing fee, the estimated project cost, as shown on the Project Costs Chart (line D), is \$21,194,000. With this project cost, the filing fee is \$45,000, and is shown on Line E of the Project Costs Chart.

- The cost of any lease should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or “per click” arrangements. This methodology used to determine the total lease cost for a “per click” arrangement must include, at a minimum, the projected procedures, the “per click” rate and the term of the lease.

**RESPONSE:** Not Applicable

- The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.

**RESPONSE:** The equipment cost is estimated to be \$1,900,000, and includes all of these items where applicable. None of this equipment has a cost greater than \$50,000.

- For projects that include new construction, modification, and/or renovation; documentation must be provided from a contractor and/or architect that support the estimated construction costs.

**RESPONSE:** Attachment Economic Feasibility.1 presents a letter from the project architect outlining the estimated construction cost.

# PROJECT COSTS CHART

2012 AUG 14 AM 10 39

A. Construction and equipment acquired by purchase	
1. Architectural and Engineering Fees	\$ 740,000
2. Legal, Administrative (Excluding CON Filing Fee), Consulting Fees	\$ 60,000
3. Acquisition of Site	\$ 1,100,000
4. Preparation of Site (including demolition)	\$ 1,500,000
5. Construction Costs	\$ 13,904,000
6. Contingency Fund	\$ 500,000
7. Fixed equipment (Not included in Construction Contract)	\$
8. Moveable Equipment (List all equipment over \$50,000)	\$ 1,900,000
9. Other (Specify) <u>permits, review fees, taxes</u>	\$ 120,000
B. Acquisition by gift, donation, or lease:	
1. Facility (FMV of Lease)	\$
2. Building only	\$
3. Land only	\$
4. Equipment	\$
5. Other (Specify) (_____)	\$
C. Financing Costs and Fees	
1. Interim Financing	\$
2. Underwriting Costs	\$ 420,000
3. Reserve for One Years Debt Service	\$ 750,000
4. Other (Specify) _____	\$
D. Estimated Project Cost (A+B+C)	\$ 21,194,000
E. CON Filing Fee	\$ 45,000
F. Total Estimated Project Cost (D+E)	\$ 21,239,000



**2. Identify the funding sources for this project.**

**a. Please check the applicable item(s) below and briefly summarize how the project will be financed. (Documentation for the type of funding *MUST* be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)**

- ☒ **A. Commercial loan—from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**
- ☐ **B. Tax-exempt bonds—Copy of preliminary resolution or letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**
- ☐ **C. General obligation bonds—Copy of resolution from issuing authority or minutes the appropriate meeting.**
- ☐ **D. Grants—Notification of intent form for grant application or notice of grant award; or**
- ☐ **E. Cash Reserves—Appropriate documentation from Chief Financial Officer.**
- ☐ **F. Other—Identify and document funding from other sources.**

**RESPONSE:** The project will be funded with a bank loan from Great Southern Bank. See Attachment C. Economic Feasibility.2.1.

**3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.**

**RESPONSE:** The construction cost is \$176.00 per square foot. The HSDA reports a median cost of nursing home new construction 2008 through 2010 was \$172.75 per square foot.

**4. Complete Historical and Projected Data Charts on the following two pages--Do not modify the Charts provided or submit Chart substitutions! Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the *Proposal Only* (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).**

**RESPONSE:** Colonial Hills Nursing Center closed in February 2012. The Historical Data Chart was completed for the last three years of operation, 2009, 2010, & 2011. The proposed facility is expected to achieve a positive cash flow during its 18<sup>th</sup> month of operation, and achieve a positive net income for its third year of operation.

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

**RESPONSE:** The expected average gross charge, average deduction from operating revenue, and the average net charge per patient day are as follows:

	Year 1	Year 2
Average gross charge	\$498.01	\$510.66
Average deduction	\$94.10	\$106.42
Average net charge	\$403.91	\$404.24

## HISTORICAL DATA CHART

Give information for the last *three* (3) years for which complete data are available for the facility or agency. The fiscal year begins in January (Month) 2012 Aug 14 Am 10 39

		2009	2010	2011
A.	Utilization Data (Total Patient Days)	71,262	70,181	66,114
	Revenue from Services to Patients			
	1. Inpatient Services	17,449,819	17,867,576	17,373,904
	2. Outpatient Services			
	3. Emergency Services			
	3. Other Operating Revenue	62,627	17,201	14,111
	<b>GROSS OPERATING REVENUE</b>	17,512,446	17,884,777	17,388,015
C.	Deductions form Operating Revenue			
	1. Contractual Adjustments	2,787,752	2,860,699	2,607,673
	2. Provision for Charity Care			
	3. Provision for Bad Debt	165,000	149,000	126,000
	<b>Total Deductions</b>	2,952,752	3,009,699	2,733,673
	<b>NET OPERATING REVENUE</b>	14,559,694	14,875,078	14,654,342
D.	Operating Expenses			
	1. Salaries and Wages (Includes Benefits)	7,670,300	7,727,928	8,186,334
	2. Physician's Salaries and Wages			
	3. Supplies	1,571,119	1,630,826	1,697,477
	4. Taxes	153,597	106,938	135,562
	5. Depreciation	49,413	55,267	74,698
	6. Rent	997,305	1,038,467	988,662
	7. Interest, other than Capital			
	8. Management Fees:			
	a. Fees to Affiliate	727,985	743,754	732,717
	b. Fees to Non-Affiliates			
	8. Other Expenses See note*	2,256,544	2,411,973	3,259,673
	<b>Total Operating Expenses</b>	13,426,263	13,715,153	15,075,123
E.	Other Revenue (Expenses)			
	<b>NET OPERATING INCOME (LOSS)</b>	1,133,431	1,159,925	<420,781>
F.	Capital Expenditures			
	1. Retirement of Principal	5,920	5,863	9,022
	2. Interest	1,078	639	1,294
	<b>Total Capital Expenditures</b>	6,998	6,502	10,316
	<b>NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES</b>	1,126,433	1,153,423	<431,097>

\*Includes contract services/repair, maintenance, insurance and survey penalties

### PROJECTED DATA CHART

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in January (Month).

		<u>2012 AUG 14 AM 10:38</u>	<u>Year2</u>
A.	Utilization Data (Specify unit of measure)	<u>13,707</u>	<u>35,002</u>
B.	Revenue from Services to Patients		
1.	Inpatient Services	<u>\$6,821,145</u>	<u>\$17,865,185</u>
2.	Outpatient Services	<u>                    </u>	<u>                    </u>
3.	Emergency Services	<u>                    </u>	<u>                    </u>
4.	Other Operating Revenue (Specify) <u>(Laundry/Meals/Beauty Shop)</u>	<u>5,066</u>	<u>8,780</u>
	<b>Gross Operating Revenue</b>	<b><u>\$6,826,211</u></b>	<b><u>\$17,873,965</u></b>
C.	Deductions from Gross Operating Revenue		
1.	Contractual Adjustments	<u>\$1,239,796</u>	<u>\$3,674,981</u>
2.	Provision for Charity Care	<u>                    </u>	<u>                    </u>
3.	Provisions for Bad Debt	<u>50,000</u>	<u>50,000</u>
	<b>Total Deductions</b>	<b><u>\$1,289,796</u></b>	<b><u>\$ 3,724,981</u></b>
	<b>NET OPERATING REVENUE</b>	<b><u>\$5,536,415</u></b>	<b><u>\$14,148,984</u></b>
D.	Operating Expenses		
1.	Salaries and Wages	<u>\$3,251,547</u>	<u>\$7,406,501</u>
2.	Physician's Salaries and Wages	<u>                    </u>	<u>                    </u>
3.	Supplies	<u>822,487</u>	<u>1,985,527</u>
4.	Taxes	<u>150,000</u>	<u>150,000</u>
5.	Depreciation	<u>650,000</u>	<u>650,000</u>
6.	Rent	<u>                    </u>	<u>                    </u>
7.	Interest, other than Capital	<u>                    </u>	<u>                    </u>
8.	Management Fees:		
a.	Fees to Affiliates	<u>279,321</u>	<u>709,949</u>
b.	Fees to Non-Affiliates	<u>                    </u>	<u>                    </u>
9.	Other Expenses (Specify) <u>List Attached</u>	<u>1,438,455</u>	<u>2,326,565</u>
	<b>Total Operating Expenses</b>	<b><u>\$ 6,591,810</u></b>	<b><u>\$13,228,542</u></b>
E.	Other Revenue (Expenses) -- Net (Specify)	<u>\$</u>	<u>\$</u>
	<b>NET OPERATING INCOME (LOSS)</b>	<b><u>\$&lt;1,055,395&gt;</u></b>	<b><u>\$ 920,442</u></b>
F.	Capital Expenditures		
1.	Retirement of Principal	<u>\$ 12,000</u>	<u>\$ 12,000</u>
2.	Interest	<u>1,268,105</u>	<u>1,268,105</u>
	<b>Total Capital Expenditures</b>	<b><u>\$ 1,280,105</u></b>	<b><u>\$ 1,280,105</u></b>
	<b>NET OPERATING INCOME (LOSS) less CAPITAL EXPENDITURES</b>	<b><u>\$&lt;2,335,500&gt;</u></b>	<b><u>\$ &lt;359,663&gt;</u></b>

## ATTACHMENT OTHER EXPENSES

Expense	Year 1	Year 2
Repairs and Maintenance	\$17,658	\$55,489
Contract Services	\$295,953	\$385,953
Associate First Aid	\$7,635	\$20,000
Workers Comp	\$77,991	\$100,000
Property & Liability Insurance	\$97,163	\$200,000
Uniforms	\$3,252	\$5,000
Communications & Advertising	\$78,011	\$66,917
Minor Equipment	\$29,227	\$66,682
Education	\$9,454	\$37,237
Utilities	\$216,000	\$249,000
Recruitment	\$27,355	\$29,805
Therapy Allocations	\$10,838	\$46,878
Claims for Loss	\$2,000	\$2,000
Group Insurance	\$241,553	\$660,000
Legal & Accounting	\$7,007	\$27,484
Dues & Subscriptions	\$12,602	\$23,380
Permits & Licenses	\$246,375	\$273,750
Meeting	\$2,695	\$3,000
Auto	\$5,000	\$5,000
Travel	\$5,000	\$5,000
Telephone	\$30,000	\$33,000
Business Meals	\$4,265	\$5,665
Yellow Pages	\$2,000	\$3,640
401K Contribution/Costs	\$8,000	\$18,000
Service Charges	\$1,421	\$3,685
Total	\$1,438,455	\$2,326,565

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.
- B. Compare the proposed charges to those of similar facilities in the service area/adjointing service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

**RESPONSE:** The 2010 Joint Annual Report (JAR) of Nursing Homes charge data contains the most currently available nursing home charge data. The charges used to complete the Projected Data Chart are for 2014. The 2009 average charges in the JAR were increased to estimate a charge in 2014 by using an average increase of four percent per year. The proposed charges at the proposed facility appear to be comparable to other nursing homes in Blount County.

Table 9  
Daily Room Charge Comparisons

Facility	Private Room		Semi-Private Room	
	2010	2014	2010	2014
Asbury Place at Maryville	\$190	\$214	\$180	\$202
Blount Memorial Transitional Care Center	\$230	\$259	\$200	\$225
Colonial Hills Nursing Center	\$224	\$252	\$180	\$203
Fairpark Healthcare Center	-	-	\$177	\$199
Kindred Transitional Care & Rehabilitation	\$170	\$191	\$163	\$183
Shannondale of Maryville Health Care	\$201	\$226	-	-

Source: 2010 Joint Annual Report of Nursing Homes

Medicare pays nursing homes for Part A skilled nursing stays based on a prospective payment system, Resource Utilization Groups (RUGS), that categorizes each resident into a payment group depending upon his or her care and resource needs. Skilled nursing facilities determine a RUG based on 108 items on an assessment of the resident's known as the Minimum Data Set (MDS). The MDS becomes a part of the patient's medical record. These 108 items are used to determine the RUG and the payment to the nursing home.

There are seven major RUG categories: Extensive Services, Special Care, Clinically Complex, Impaired Cognition, Behavior Problem, and Reduced Physical Function. These categories are further divided into 44 subcategories, each has a different Medicare payment rate. Because all Medicare reimbursement is based on this prospective

payment system, there is not a practical way to compare Medicare reimbursement to the facility's charges.

7. **Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness.**

**RESPONSE:** As shown in the Projected Data Chart, the proposed project is expected to have a positive cash flow during its second year of operation. The expected utilization rates are sufficient to maintain a cost-effective facility.

8. **Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.**

**RESPONSE:** The facility is expected to have a positive cash flow during its second year of operation and be financially viable at this time. If required, cash reserves of Life Care Centers of America, Inc. are expected to be used to provide any needed funding. Also, the Project Cost Chart contains a reserve of \$700,000 for the first year debt service.

9. **Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.**

**RESPONSE:** During the second year of operation, \$8,818,235 of net revenue, or 62 percent of the total revenue, is expected to be from the Medicare program. Medicare (skilled) patient days represent 55 percent of total patient days during the first year of operation. The historical and projected payor mix data was previously present in Table 8. The projected gross revenue by payor is presented in the following table.

Table 10  
Projected Revenue by Payor

Payor	Year 1		Year 2	
	Gross Revenue	% of Total Revenue	Gross Revenue	% of Total Revenue
Private	\$1,072,198	16%	\$2,809,551	16%
Medicare	\$4,664,907	68%	\$11,784,659	66%
Medicaid	-	-	-	-
Insurance	\$1,084,040	16%	\$3,270,975	18%
Other	\$5,006	0%	\$8,780	0%
Total	\$6,826,211	100%	\$17,873,965	100%

Table 11  
Historical & Project Payor Mix

Year	Insurance	Medicaid	Medicare	Private	VA/Hospice
2008	2%	58%	19%	19%	1%
2009	3%	57%	17%	22%	1%
2010	4%	57%	18%	19%	2%
2011	6%	56%	16%	19%	3%
Year 1	15%	0%	57%	29%	0%
Year 2	17%	0%	55%	29%	0%

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as **Attachment C, Economic Feasibility-10**.

**RESPONSE:** A copy of the 2011 income statement and balance sheet for Colonial Hills Nursing Center is presented in **Attachment C, Economic Feasibility-10.1**.

As previously discussed in the application, Life Care is a privately held company, and is not required by law to make its financial statements public. The information in our financial statement is confidential and sensitive in a number of areas. A letter from DeCosimo and Company, PLLC, indicating the applicant has the funds available for annual debt service required for project, is presented in **Attachment C, Economic 10.2**.

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:
- A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

**RESPONSE:** Two alternatives were considered: either proceed with the project which was authorized by CN1202-003A or move Colonial Hills Nursing Center to the proposed site. The approved certificate of need was for a major renovation of the existing facility



(67,689 sq. ft.) and small amount of new construction (7,914 sq. ft.). This option has a lower project cost than the relocation to the proposed site. Although the cost of the renovation is lower than the proposed project, the proposed project is a better option to provide nursing home care to the residents of Blount County. The move to the new site has several advantages, i.e. all new construction, increased accessibility, increased visibility and the ability to establish a CCRC.

## **CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE**

- 1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.**

**RESPONSE:** Transfer, managed care, ancillary care (ambulance services, laboratory, etc.), and hospice agreements were in place for Colonial Hills Nursing Center. These agreements will be updated before the reopening of the proposed facility.

- 2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.**

**RESPONSE:** The effects on the health care system of the relocation of Colonial Hills Nursing Center are only positive. The implementation of this project will increase the accessibility to nursing home care to the residents of the service area, a new facility will be constructed, and visibility of the facility will be increased. Charges at Colonial Hills Nursing Center are not anticipated to increase as a result of this project.

- 3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.**

Response: During 2011, the facility was staffed with 189.3 FTEs. The clinical staffing was 123.1 FTEs and consisted of 4.1 registered nurses, 30.9 licensed practical nurses, 66.5 nursing technicians, 9.3 physical therapists, 2.4 speech therapists, 6.9 occupational therapists, and 3.0 social workers. The remaining 66.2 FTEs were in non-clinical areas i.e.,

administration, dietary, housekeeping, etc. The facility was staffed at 5.59 paid hours per patient day.

During the second year of operation, the patient care staffing (clinical) is expected to be 93.9 FTEs. This staff includes 7.8 registered nurses, 18.6 licensed practical nurses, 32.0 certified nurses' aides, 15.6 physical therapists, 2.9 speech therapists, 14.4 occupational therapists, and 2.7 social workers. The planned direct nursing hours are 3.47 hours per patient day. The expected salary, compared to those of the 2010 Tennessee Department of Labor & Workforce Development, is presented in the following table.

Table 12  
Salary Comparisons

Position	Expected Wage	Median Wage
Registered Nurse	\$23.09	\$25.26
Licensed Practical Nurse	\$18.68	\$15.98
Certified Nursing Technician	\$11.52	\$10.58
Physical Therapist	\$37.08	\$33.14
Speech Therapist	\$37.08	\$25.23
Occupational Therapist	\$37.08	\$31.38
Social Worker	\$18.54	\$15.92

Note: Median wage is for 2010 Knoxville MSDA

4. **Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Developmental Disabilities, and/or the Division of Mental Retardation Services licensing requirements.**

**RESPONSE:** Life Care has operated in the state for many years, and has always been successful in attracting and retaining adequate professional and support staff. The expected staffing, during the second year of operation, is 145.2 FTEs. The applicant does not anticipate a problem in recruiting this additional staff.

5. **Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education.***

**RESPONSE:** Life Care has been operating nursing homes in the State of Tennessee since 1976, and manages 26 other nursing centers in the state. Therefore, the management team

and the management company are very familiar with and understand all licensing and certification requirements of the State of Tennessee.

6. **Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).**

**RESPONSE:** The applicant is not planning to participate in the training of students.

7. (a) **Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.**

**RESPONSE:** As noted in the response to question 5, Life Care has extensive experience in long term care, and is familiar with the Tennessee Department of Health's licensure requirements. The facility will be certified by Medicare. Life Care manages the operations of approximately 220 facilities currently certified by the Medicare program. The applicant understands the requirements of the various governmental authorities.

- (b) **Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.**

**RESPONSE:** Licensure: Colonial Hills Nursing Center will be licensed by the Tennessee Department of Health. Please see **Attachment Orderly Development 7.(b).1** for a copy of the current certificate of need and **Attachment Orderly Development 7.(b)2** for current license. The Facility has submitted a request to the Board of Licensing of Health Care Facilities that the license be placed in an inactive status; this request will be considered by the Board at its next meeting in September, 2012.

Certification: The facility will be certified by the Centers for Medicare and Medicaid Services (CMS).

Accreditation: It was previously accredited by the Joint Commission for Accreditation of Healthcare Organizations (JCAHO), and anticipates seeking accreditation again.

**If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.**

- (c) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction.**

**RESPONSE:** Not applicable. The facility is closed.

- 8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.**

**RESPONSE:** None

- 9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.**

**RESPONSE:** None

- 10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.**

**RESPONSE:** The applicant currently provides, and will continue to provide, appropriate agencies information concerning the number of patients treated, and type of procedures performed,

## PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

**RESPONSE:** Attached is a page from the newspaper containing the legal notice.

## DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.

**RESPONSE:** The chart is completed

2. If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph*, please state below any request for an extended schedule and document the "good cause" for such an extension.

**RESPONSE:** The applicant is requesting a 12 month extension. As shown in the Projected Completion Forecast Chart, the license is not expected to be issued until May 2015 or approximately 29 months after certificate of need approval.

## PROJECT COMPLETION FORECAST CHART

2012 AUG 14 AM 10 39

Enter the Agency projected Initial Decision date, as published in Rule 68-11-1609(c): November 14, 2012. Assuming the CON approval becomes the final agency action on that date; indicate the number of days from the above agency decision date to each phase of the completion forecast.

<u>Phase</u>	<b>DAYS REQUIRED</b>	<b>Anticipated Date (MONTH/YEAR)</b>
1. Architectural and engineering contract signed	30	December/2012
2. Construction documents approved by the Tennessee Department of Health	203	June/2013
3. Construction contract signed	233	July/2013
4. Building permit secured	264	August/2013
5. Site preparation completed	356	November/2013
6. Building construction commenced	387	December/2013
7. Construction 40% complete	538	May/2014
8. Construction 80% complete	691	October/2014
9. Construction 100% complete (approved for occupancy)	872	April/2015
10. *Issuance of license	902	May/2015
11. *Initiation of service	932	June/2015
12. Final Architectural Certification of Payment	962	July/2015
13. Final Project Report Form (HF0055)	993	August/2015

**\* For projects that do NOT involve construction or renovation: Please complete items 10 and 11 only.**

**Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.**

**The applicant is requesting 36 months to complete this project.**

## **ATTACHMENT A.4.2 CORPORATE ORGANIZATION CHART**

***Colonial Hills Nursing Center***

1965 Stewart Lane  
Louisville, Tennessee 37777  
(Blount County)

---

***OWNER / OPERATOR / LICENSE HOLDER***

Colonial Development, Inc.  
a Tennessee corporation

Forrest L. Preston  
100% Sole Shareholder

***MANAGER***

Life Care Centers of America, Inc.  
a Tennessee corporation

Forrest L. Preston  
100% Sole Shareholder



## **ATTACHMENT PROJECT DESCRIPTION B I.1 LIFE CARE – TENNESSEE FACILITIES**

**LIFE CARE**  
**TENNESSEE NURSING HOMES**

1. Life Care Center of Athens – Athens, Tennessee
2. Life Care Center of Bruceton- Bruceton, Tennessee
3. Life Care Center of Centerville – Centerville, Tennessee
4. Life Care Center of Cleveland – Cleveland, Tennessee
5. Life Care Center of Collegedale – Chattanooga, Tennessee
6. Colonial Hills Nursing Center – Maryville, Tennessee
7. Life Care Center of Columbia – Columbia, Tennessee
8. Life Care Center of Crossville – Crossville, Tennessee
9. Life Care Center of Copper Basin – Ducktown, Tennessee
10. Life Care Center of East Ridge – East Ridge, Tennessee
11. Life Care Center of Elizabethton – Elizabethton, Tennessee
12. Life Care Center of Gray – Gray, Tennessee
13. Life Care Center of Greeneville – Greeneville, Tennessee
14. The Heritage Center – Morristown, Tennessee
15. Life Care Center of Hickory Woods, - Antioch, Tennessee
16. Life Care Center of Hixson – Hixson, Tennessee
17. Life Care Center of Jefferson City – Jefferson City, Tennessee
18. Lynchburg Nursing Center – Lynchburg, Tennessee
19. Life Care Center of Morgan County – Wartburg, Tennessee
20. Life Care Center of Morristown – Morristown, Tennessee
21. Life Care Center of Old Hickory Village – Old Hickory, Tennessee
22. Life Care Center of Red Bank – Chattanooga, Tennessee
23. Life Care Center of Rhea County – Dayton, Tennessee
24. Ridgeview Terrace of Life Care – Rutledge, Tennessee
25. Life Care Center of Sparta – Sparta, Tennessee
26. Life Care Center of Tullahoma – Tullahoma, Tennessee

**ATTACHMENT PROJECT DESCRIPTION II.A  
COPY OF CODES LETTER**



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July 3, 2012

Mr. Scott Gooch  
Vice President of Construction Services  
Life Care Centers of America, Inc.  
3001 Keith St. NW  
Cleveland, TN 37312

Re: Blount Co. Skilled Nursing Facility

Mr. Gooch:

We have reviewed the codes required for the proposed new Skilled Nursing Facility, located in Blount County, Tennessee. Since there are two sets of codes required at this location, we will use the most stringent where conflicts occur. The following codes are adopted by the reviewing authorities:

**Tennessee Department of Health:**

1. 2006 International Building Code, (excluding Chapters 11 and 27).
2. 2006 International Plumbing Code.
3. 2006 International Mechanical Code.
4. 2006 International Fuel Gas Code.
5. 2006 NFPA 1, (excluding NFPA 5000).
6. 2006 NFPA 101 Life Safety Code.
7. 2005 National Electric Code.
8. 1999 North Carolina Accessibility Code, (with 2004 Amendments).
9. Americans with Disability Act (ADA), (with 2002 Amendments).
10. 2010 AIA Guidelines for Design and Construction of Health Care Facilities.
11. 2004 Americans with Disabilities Act (ADA).
12. 2005 US Public Health Service Food Code.

**Blount County:**

1. 2006 International Building Code.
2. 1999 North Carolina Handicap Code.
3. 2006 International Plumbing Code.
4. 2006 International Mechanical Code.
5. 2006 International Fuel Gas Code.
6. 2006 International Energy Conservation Code.
7. 2006 International Fire Code.
8. 2005 National Electric Code.
9. Current Blount County Zoning Regulations.

If you have any further questions, please feel free to contact us at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Wyatt Leonard". The signature is fluid and cursive, with the first letter "R" being particularly large and stylized.

R. Wyatt Leonard, AIA  
Project Manager

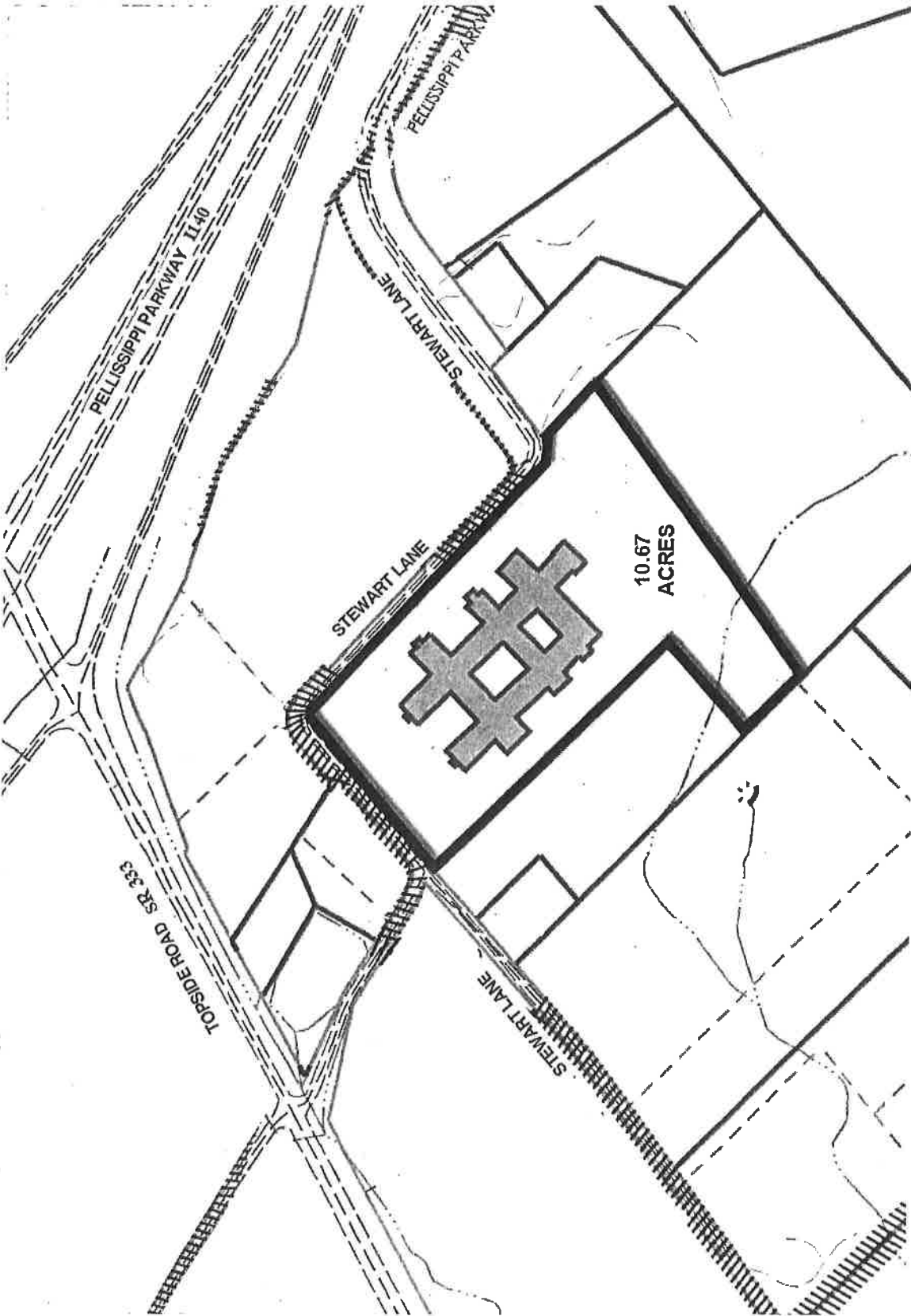
**ATTACHMENT B.III.(A)**  
**COPY OF PLOT PLAN**



franklin | architects

July 30, 2012

LIFE CARE CENTERS OF AMERICA  
BLOUNT CO. SKILLED NURSING FACILITY  
ALCOA, TENNESSEE  
Scale =  
SITE PLAN



1 SITE PLAN

**ATTACHMENT B.IV**  
**COPY OF LINE DRAWINGS**





franklin architects

July 5, 2012

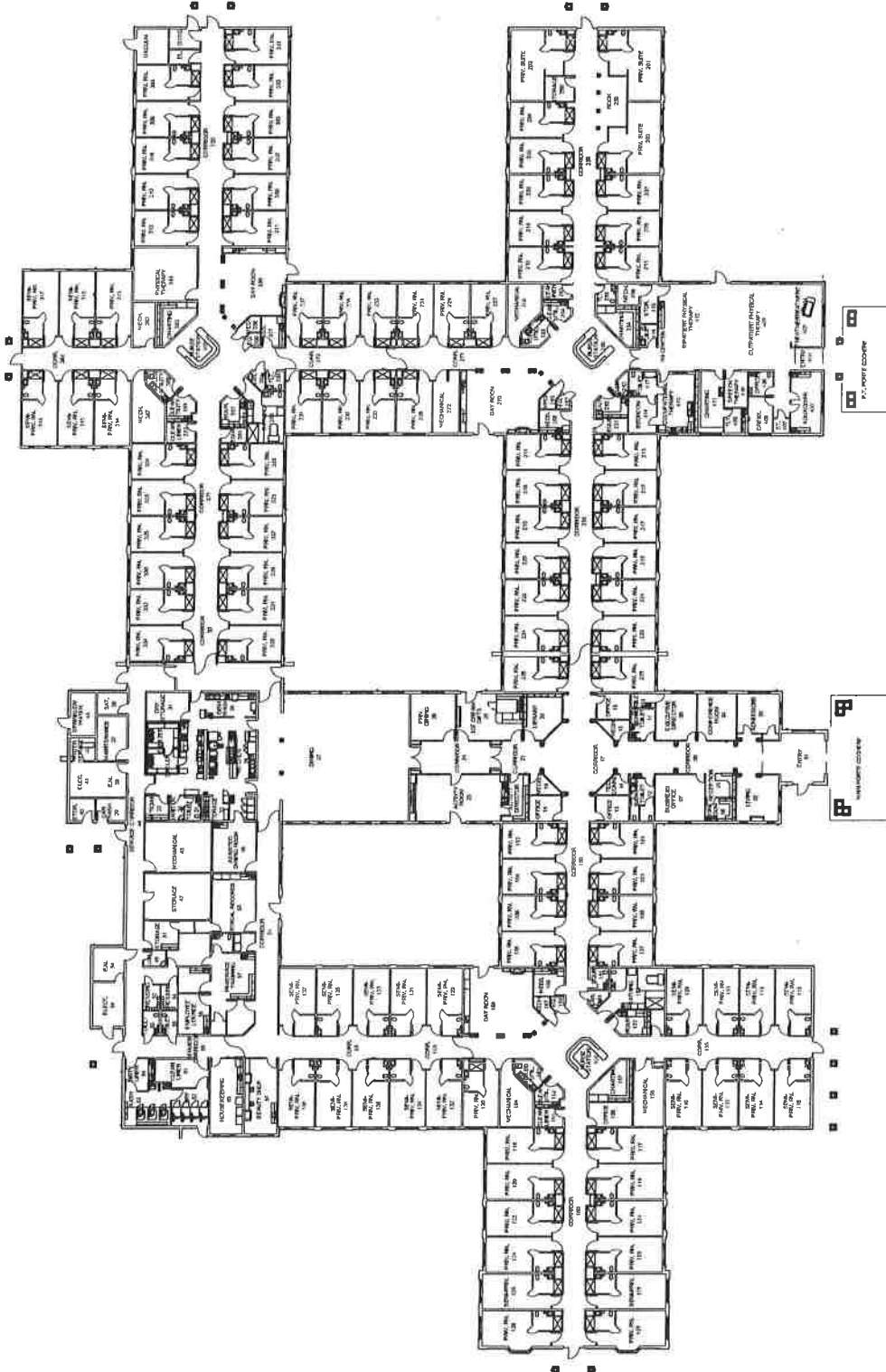
Blount Co. Skilled Nursing Facility

# BLOUNT CO. SKILLED NURSING FACILITY

ALCOA, TENNESSEE

Scale = 1" = 40'-0"

## FLOOR PLAN



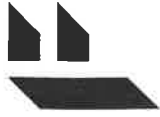
AREA:  
79,000 S.F.

### BED COUNT

PRIVATE RMS. - 80 BEDS  
SEMI-PRIVATE RMS. - 40 BEDS  
TOTAL ROOMS - 120 BEDS

## FLOOR PLAN

1" = 40'-0"



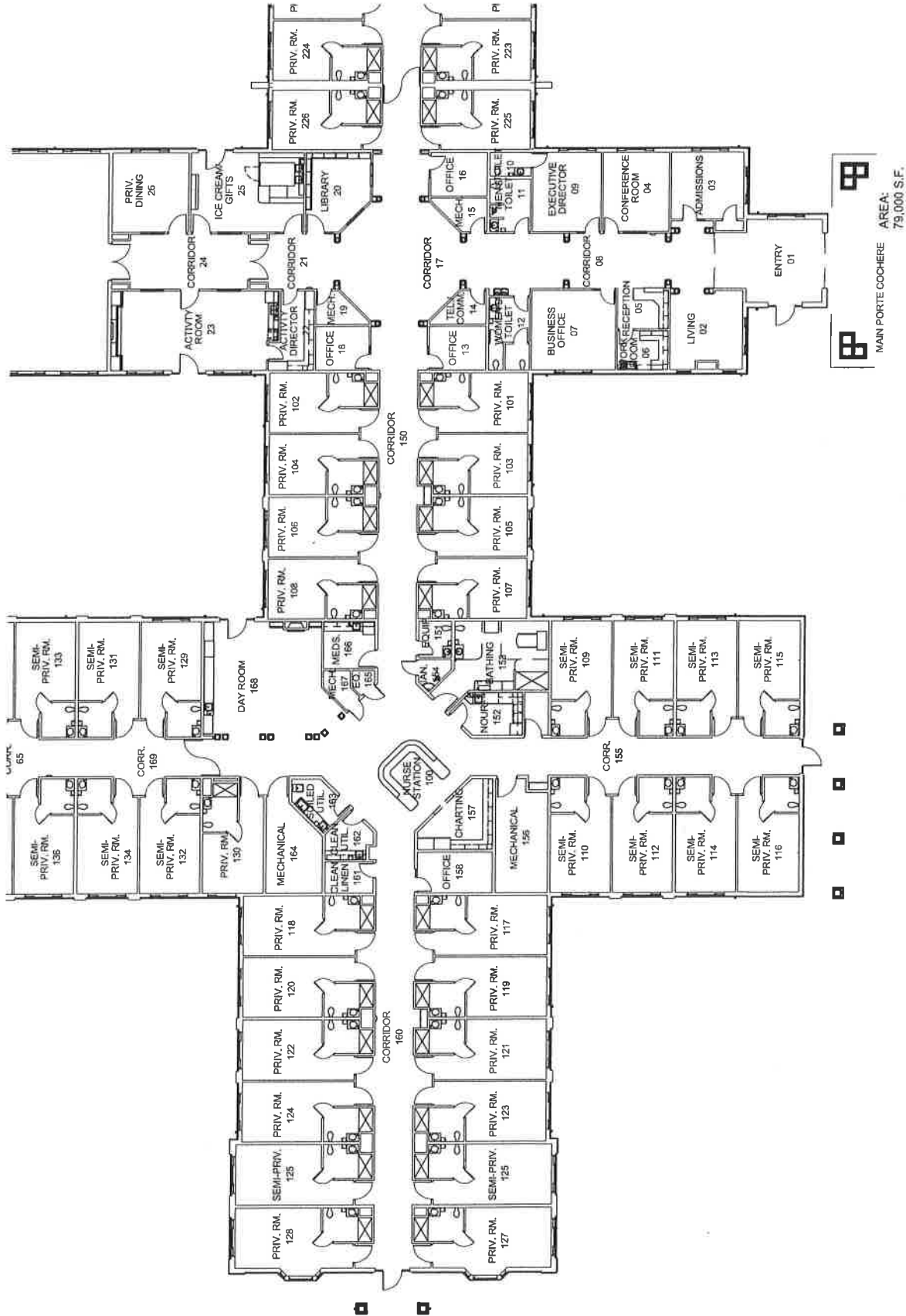
franklin architects

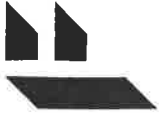
July 30, 2012

BLOUNT CO. SKILLED NURSING FACILITY

ALCOA, TENNESSEE

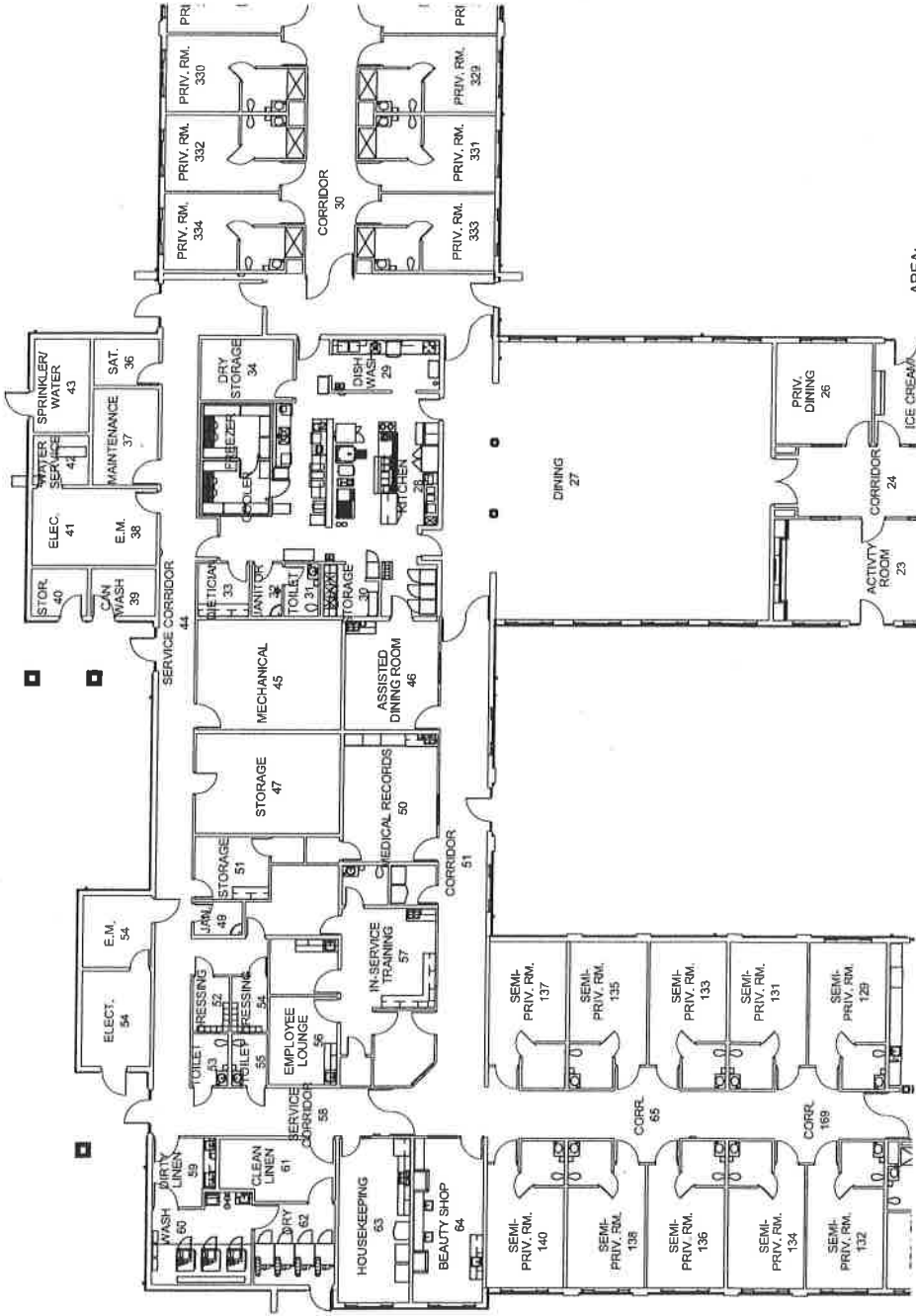
FLOOR PLAN  
Scale = 1" = 20'-0"





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July 30, 2012



AREA:  
79,000 S.F.

BED COUNT

PRIVATE RMS. 80 RMS. - 80 BEDS  
SEMI-PRIVATE RMS. 20 RMS. - 40 BEDS  
TOTAL ROOMS 100 RMS. - 120 BEDS

## FLOOR PLAN - WING 'B'

1" = 20'-0"

BLOUNT CO. SKILLED NURSING FACILITY

ALCOA, TENNESSEE

FLOOR PLAN

Scale = 1" = 20'-0"





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July 30, 2012

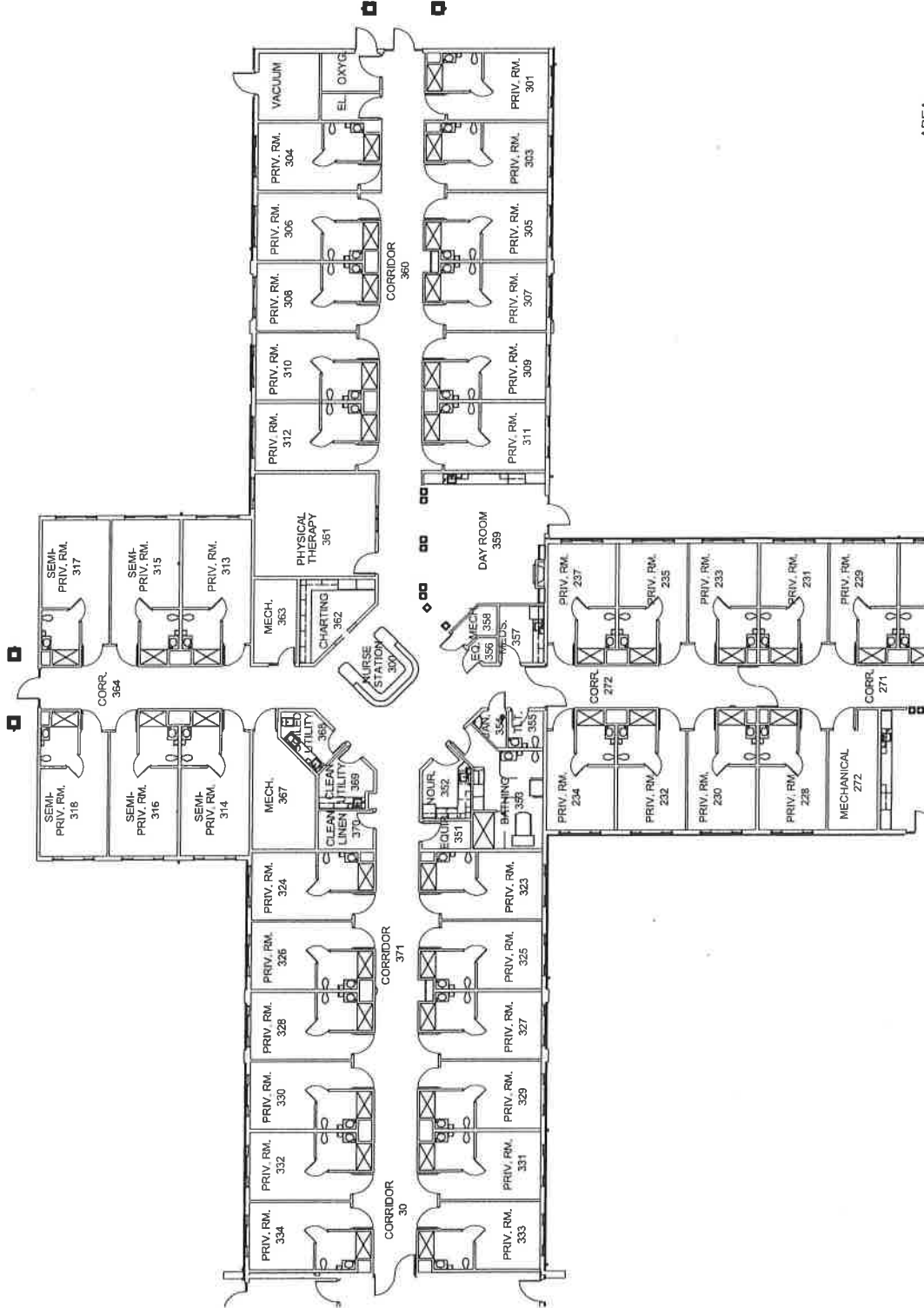
July 30, 2012

# BLOUNT CO. SKILLED NURSING FACILITY

ALCOA, TENNESSEE

Scale = 1" = 20'-0"

## FLOOR PLAN



AREA:  
79,000 S.F.

### BED COUNT

PRIVATE RMS.	80 RMS. - 80 BEDS
SEMI-PRIVATE RMS.	20 RMS. - 40 BEDS
TOTAL ROOMS	100 RMS. - 120 BEDS

## FLOOR PLAN - WING 'C'

1" = 20'-0"



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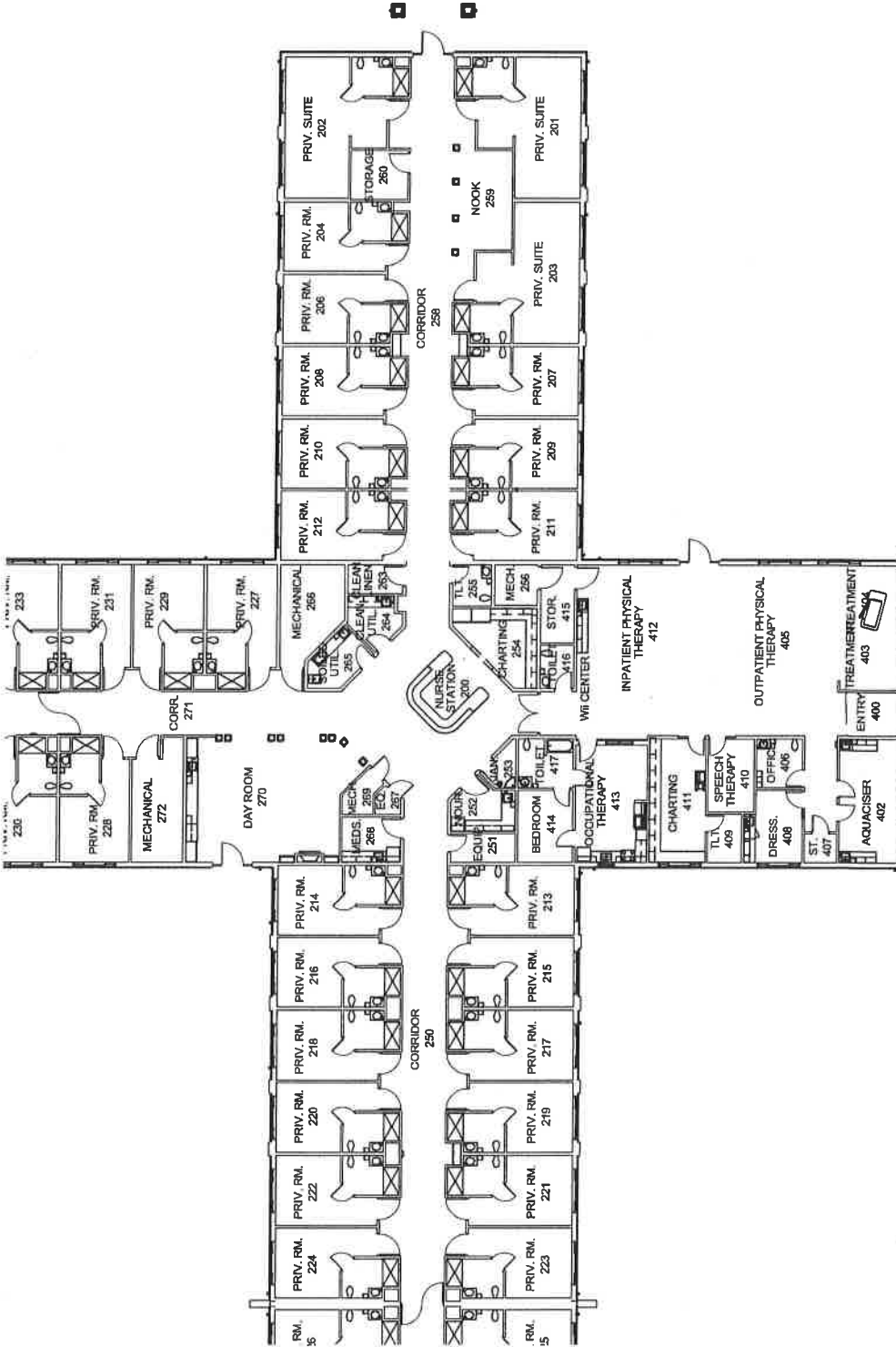
July 30, 2012

BLOUNT CO. SKILLED NURSING FACILITY

ALCOA, TENNESSEE

Scale = 1" = 20'-0"

FLOOR PLAN



AREA:  
79,000 S.F.

**BED COUNT**

PRIVATE RMS. 80 RMS. - 80 BEDS  
SEMI-PRIVATE RMS. 20 RMS. - 40 BEDS  
TOTAL ROOMS 100 RMS. - 120 BEDS

**FLOOR PLAN - WING 'D'**

1" = 20'-0"

# **ATTACHMENT C, NEED.3 SERVICE AREA MAP**

**State of Tennessee**

[illegible]

# **ATTACHMENT C, NEED.5 HISTORICAL UTILIZATION DATA**



## ATTACHMENT C, NEED.5 HISTORICAL UTILIZATION DATA

**Blount County Nursing Homes Historical Utilization -2008**

Nursing Home	Licensed Beds	Medicare-certified beds	Medicare/Medicaid-dually certified beds	SNF Medicare ADC	SNF Medicaid ADC	SNF- All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
Asbury Place At Maryville	181	12	27	21.3	7.1	1.8	129.7	159.9	88.4
Blount Memorial Transitional Care	76	76	-	39.3	-	29.9	-	69.2	91.1
Colonial Hills Center	203	-	203	42.9	1.1	0.9	151.7	196.71	96.8
Fairpark Healthcare Center	75	-	75	9.2	2.9	1.0	58.0	71.1	94.8
Maryville Health Care & Rehab Ctr	187	-	187	27.6	5.4	0.1	141.7	174.8	93.5
Kindred Transitional Care & Rehabilitation	-	-	-	-	-	-	-	-	-
Shannondale of Maryville	44	44	-	3.2	-	8.0	32.5	43.7	99.4
<b>Total</b>	<b>766</b>	<b>132</b>	<b>492</b>	<b>143.5</b>	<b>16.5</b>	<b>201.7</b>	<b>513.6</b>	<b>715.3</b>	<b>93</b>

**Blount County Nursing Homes Historical Utilization -2009**

Nursing Home	Licensed Beds	Medicare-certified beds	Medicare/Medicaid-dually certified beds	SNF Medicare ADC	SNF Medicaid ADC	SNF- All other Payors ADC	NF ADC	Total ADC	Licensed % Occupancy
Asbury Place At Maryville	181	-	117	19.7	4.06	-	136.4	160.7	88.8
Blount Memorial Transitional Care	76	76	-	49.3	-	20.8	-	70.1	92.0
Colonial Hills Center	203	-	203	37.9	3.0	-	154.3	195.2	96.2
Fairpark Healthcare Center	75	-	75	8.9	2.0	-	62.8	73.7	98.2
Maryville Health Care & Rehab Ctr	187	-	187	32.7	6.9	0.1	135.7	175.4	93.8
Kindred Transitional Care & Rehabilitation	-	-	-	-	-	-	-	-	-
Shannondale of Maryville	44	44	-	3.0	-	-	40.0	43.0	97.7
<b>Total</b>	<b>766</b>	<b>120</b>	<b>582</b>	<b>151.5</b>	<b>16.5</b>	<b>20.9</b>	<b>529.2</b>	<b>718.1</b>	<b>93.7</b>

**Blount County Nursing Homes Historical Utilization -2010**

<b>Nursing Home</b>	<b>Licensed Beds</b>	<b>Medicare- certified beds</b>	<b>Medicare/Medicaid- dually certified beds</b>	<b>SNF Medicare ADC</b>	<b>SNF Medicaid ADC</b>	<b>SNF- All other Payors ADC</b>	<b>NF ADC</b>	<b>Total ADC</b>	<b>Licensed % Occupancy</b>
<b>Asbury Place At Maryville</b>	<b>181</b>	<b>-</b>	<b>117</b>	<b>19.7</b>	<b>4.7</b>	<b>-</b>	<b>136.4</b>	<b>160.8</b>	<b>88.8</b>
<b>Blount Memorial Transitional Care</b>	<b>76</b>	<b>76</b>	<b>-</b>	<b>63.3</b>	<b>-</b>	<b>8.7</b>	<b>-</b>	<b>72.0</b>	<b>94.7</b>
<b>Colonial Hills Center</b>	<b>203</b>	<b>-</b>	<b>203</b>	<b>42.4</b>	<b>-</b>	<b>1.3</b>	<b>148.6</b>	<b>192.3</b>	<b>94.7</b>
<b>Fairpark Healthcare Center</b>	<b>75</b>	<b>-</b>	<b>75</b>	<b>10.8</b>	<b>2.8</b>	<b>-</b>	<b>58.3</b>	<b>71.9</b>	<b>95.9</b>
<b>Maryville Health Care &amp; Rehab Ctr</b>	<b>187</b>	<b>-</b>	<b>187</b>	<b>30.8</b>	<b>3.9</b>	<b>1.7</b>	<b>137.9</b>	<b>174.3</b>	<b>93.2</b>
<b>Kindred Transitional Care &amp; Rehabilitation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Shannondale of Maryville</b>	<b>44</b>	<b>44</b>	<b>-</b>	<b>4.2</b>	<b>-</b>	<b>-</b>	<b>38.3</b>	<b>42.5</b>	<b>96.6</b>
<b>Total</b>	<b>766</b>	<b>120</b>	<b>582</b>	<b>171.2</b>	<b>11.4</b>	<b>11.7</b>	<b>519.5</b>	<b>713.8</b>	<b>93.2</b>

# **ATTACHMENT C. ECONOMIC FEASIBILITY.1**

## **ESTIMATED CONSTRUCTION COSTS**



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2012 AUG 14 AM 10 40

July 3, 2012

Mr. Scott Gooch  
Vice President of Construction Services  
Life Care Centers of America, Inc.  
3001 Keith St. NW  
Cleveland, TN 37312

Re: Blount Co. Skilled Nursing Facility

Mr. Gooch:

We have reviewed the Square Footage and Cost per Square Footage Chart that has been prepared for the CON to the State of Tennessee for the new Skilled Nursing Facility for Blount County, Tennessee. The proposed construction cost of \$13,904,000 or an average of \$176.00/sf for a 79,000 square foot facility appears reasonable and accurate in today's construction market.

To the best of my knowledge and belief, the new facility will meet the AIA Guidelines for Design & Construction of Health Care Facilities and all applicable local, state and federal standards.

Sincerely,

R. Wyatt Leonard, AIA  
Project Manager



## **ATTACHMENT C. ECONOMIC FEASIBILITY.2.1 FUNDING LETTER**

2012 AUG 22 PM 3:43

**Great Southern Bank**

August 17, 2012

Colonial Development, Inc.  
Mr. Forrest L. Preston  
3001 Keith Street, NW  
Cleveland, Tennessee 37320

RE: Colonial Hills Nursing Center

Dear Forrest,

We are excited to discuss the opportunity to finance the construction of your replacement facility in Maryville, Tennessee. This sounds like an exciting project that will clearly serve the Maryville area well by delivering the care and services that today's seniors need and desire. As you are aware, Great Southern has successfully worked with you and your companies over the past decade and has provided you with financing for multiple construction projects.

Subject to adhering to our applicable underwriting criteria, we are interested to work with you on the construction of a new facility. Based on our typical loan parameters, we anticipate that the project can support a loan up to \$21,239,000. The interest rate would be established at closing, but would be approximately 5% if we closed today. The loan term would be 5 years with interest only during construction and lease-up. I know you are aware of our construction financing process and capabilities based on our previous successful experiences with one another.

Great Southern looks forward to reviewing your loan proposal once you have obtained the necessary Certificate of Need from the State.

Sincerely,



Carol L. Hanson  
Vice President

# **ATTACHMENT C. ECONOMIC FEASIBILITY.10.1 FINANCIAL STATEMENTS**



COLONIAL HILLS  
Particulars  
Comparative Balance Sheet  
December 31, 2011

PAGE 2  
02/07/12  
17.18

0007

ACCOUNT DESCRIPTION	NET ACTIVITY FOR MONTH	CURRENT BALANCE	PREVIOUS YEAR END	INCREASE/ DECREASE
PREPAID RENTER CARE AUTO INSUR	213.35-			
PREPAID PROP INSUR	1,155.07-			
PREPAID DUES	1,295.00-		15,540.00	15,540.00-
PREPAID DUES - JOHNS	210.00-			
PREPAID OTHER	200.00-	1,200.00	1,200.00	
PREPAID ORDER	170.83-	1,195.81	1,195.81	
PREPAID LAUNDRY	11,892.54-			
TOTAL SUPPLIES/OTHER CURRENT	15,930.21-	2,395.81	17,935.81	15,540.00-
TOTAL CURRENT ASSETS	77,202.20-	1,342,110.82	2,687,792.43	345,681.61-
PROPERTY & EQUIPMENT				
LAND		89,946.50	89,946.50	
TOTAL PROPERTY		89,946.50	89,946.50	
BUILDING & IMPROVEMENTS				
CONSTRUCTION IN PROGRESS	13,962.50-			
LEASEHOLD IMPROVEMENTS	42,549.00	239,006.31	171,763.21	67,243.10
TOTAL BLDGS & IMPROVEMENTS	28,586.50	239,006.31	171,763.21	67,243.10
EQUIPMENT, FURN & FIXTURES				
EQUIPMENT & FURNITURE	6,266.57	450,180.87	376,057.83	74,123.14
TRANSPORTATION EQUIPMENT		77,689.85	77,689.85	
TOTAL EQUIP, FURN & FIXTURES	6,266.57	527,870.82	376,057.83	151,812.99
LEASED PROP UNDER CAP LEASE				
TRANSPORT EQUIP UND CAP LEASE			24,188.80	24,188.80-
TOTAL LEASES PROPERTY			24,188.80	24,188.80-
ACCUMULATED DEPRECIATION				
ACCUM DEPR EQUIP/FURNIT	3,717.14-	160,258.61-	126,400.05-	41,858.56-
ACCUM DEPR L/E	1,448.57-	57,255.53-	40,441.21-	16,814.32-
ACCUM DEPR TRANS EQUIP	7,589.42-	31,705.35-	31,705.35-	
ACC DEPR TRANS EQ UND CAP LE			15,719.93-	15,719.93-
TOTAL ACCUMULATED DEPR	12,755.13-	257,259.49-	182,561.19-	74,698.30-
NET PROPERTY & EQUIPMENT	22,077.94	599,564.34	479,395.15	120,168.99
OTHER LONG-TERM ASSETS				
RESIDENT TRUST FUNDS	59,499.72-	18,740.81	30,079.08	11,338.27-
DEPOSITS		3,700.00	3,700.00	
TOTAL OTHER ASSETS	59,499.72-	22,440.81	33,779.08	11,338.27-

COLONIAL HILLS  
MARYVILLE  
Comparative Balance Sheet  
December 31, 2011

PAGE 3  
02/07/12  
17:18

ACCOUNT DESCRIPTION	NET ACTIVITY FOR MONTH	CURRENT BALANCE	PREVIOUS YEAR END	INCREASE/ DECREASE
LONG-TERM A/R				
INSURANCE RECOVERABLES RECEIVABLE	205,872.56	205,872.56		205,872.56
TOTAL LONG-TERM A/R	205,872.56	205,872.56		205,872.56
INTANGIBLE ASSETS				
STARTUP COSTS		33,473.00	33,473.00	
TOTAL INTANGIBLE ASSETS		33,473.00	33,473.00	
ACCUMULATED AMORT OTH ASSETS				
ACCUM AMORT STARTUP COSTS		33,473.00-	33,473.00-	
TOTAL ACCUMULATED AMORTIZEN		33,473.00-	33,473.00-	
NET OTHER ASSETS	146,372.84	228,313.37	33,779.08	194,534.29
INTERCOMPANY				
TOTAL ASSETS	91,248.58	2,169,988.33	2,200,966.56	30,978.33-

CLONIAL HILLS  
NABEVILLE  
Comparative Balance Sheet  
December 31, 2011

PAGE 4  
02/07/12  
17:18

ACCOUNT DESCRIPTION	NET ACTIVITY FOR MONTH	CURRENT BALANCE	PREVIOUS YEAR END	INCREASE/ DECREASE
<b>ACCOUNTS PAYABLE</b>				
TRADE ACCOUNTS PAYABLE	23,851.25-	273,691.38	307,959.68	34,268.30-
N/P MONTH END ACCRUAL	4,856.24	26,174.70	1,577.76-	25,702.46
N/P MANAGEMENT FEES - MANAGED	28,430.00			
<b>TOTAL ACCOUNTS PAYABLE</b>	<b>9,436.99</b>	<b>297,866.08</b>	<b>306,431.92</b>	<b>8,565.84-</b>
<b>ACCURED SALARIES</b>				
FEDERAL INCOME TAX W/H	31,839.78-			
FEDERAL UNEMPLOY TAX W/H	291.12-	82.34	104.84	22.50-
FICA TAX W/H	16,237.82-			
FICA EMPLOYERS PORTION	16,931.20-	11,333.44	8,856.09	2,477.35
STATE UNEMPLOY TAX W/H	730.90-	260.34	285.36	25.02-
401K W/H	369.06	3,555.82	3,555.55	0.27
ACCURED SALARIES	162,743.93-	140,865.44	104,485.69	36,379.75
ACCURED VACATION & SICK	60,716.61-	54,618.89	97,701.57	15,090.68-
MISC ACCURED	246,000.00	246,000.00		246,000.00
<b>TOTAL ACCURED EXPENSES</b>	<b>62,112.30-</b>	<b>484,708.27</b>	<b>214,989.10</b>	<b>269,719.17</b>
<b>ACCURED OTHER EXPENSES</b>				
REAL ESTATE TAX PAYABLE	3,454.19	39,628.00	37,791.00	2,037.00
PERSONAL PROP TAX PAYABLE	114.51	2,002.00	1,961.00	41.00
ACCURED LEASE	9,354.55-			
ACCURED LEASE	88.01-	835.00	959.00	124.00-
ACCURED INTEREST P.L. PRESTON	6,386.41	6,386.41		6,386.41
MISC ACCURED	860.69-		860.69	860.69-
GRANTSHMENTS	3,936.30-	117.00-		112.00-
<b>TOTAL ACCURED OTHER EXPENSES</b>	<b>4,284.44-</b>	<b>48,939.41</b>	<b>41,571.69</b>	<b>7,367.72</b>
<b>INCOME TAXES</b>				
FRANCHISE/RECIPE TAX PAY	8,039.16	20,200.00	20,880.00	680.00-
<b>TOTAL ACCURED EXPENSES</b>	<b>38,397.58-</b>	<b>553,847.68</b>	<b>277,440.79</b>	<b>276,406.89</b>
<b>NOTES PAYABLE</b>				
<b>DEBT MATURITIES OF L/T DEBT</b>				
N/P	1,041.73-	2,107.19		2,107.19
N/P	3,697.27	12,719.81		12,719.81
LEASE OBLIGATION			6,134.33	6,134.33-
<b>TOTAL CURRENT MATURITIES</b>	<b>2,635.54</b>	<b>14,827.00</b>	<b>6,134.33</b>	<b>8,692.67</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>26,265.05-</b>	<b>866,540.76</b>	<b>590,007.04</b>	<b>276,533.72</b>
<b>LONG TERM DEBT</b>				
L/T N/P	519.89			
L/T N/P	4,721.33-	31,756.70		31,756.70
L/T N/P P.L. PRESTON	9,712,671.87	9,712,671.87		9,712,671.87

COLONIAL HILLS  
MARYVILLE  
Comparative Balance Sheet  
December 31, 2011

PAGE 5  
03/07/13  
17.18

ACCOUNT DESCRIPTION	NET ACTIVITY FOR MONTH	CURRENT BALANCE	PREVIOUS YEAR END	INCREASE/ DECREASE
<b>LEASE OBLIGATION</b>				
TOTAL LONG-TERM DEBT	9,708,470.53	9,744,430.57	2,107.19	1,107.19-
DEFERRED INCOME TAXES & OTHER UNRELIATED PROPERTY 1998+ RESIDENT TRUST FUND REF: ACCRUED TAIL/EXCESS LIABL REF: ACCRUED RETRO PROF LIABL LCCA DUE TO/FROM - MANAGED LCCA DUE TO/FROM ACCRUED LIABILITY RISKS	59,499.72- 2,382.08 45,776.72- 50,635.07 618,973.13 205,872.56	6,865.30 18,740.81 222,476.96 45,776.72- 46,236.90 5,432.96 205,872.56	4,264.01 30,079.08 220,094.88 33,003.76- 6,907.23 902,236.67-	2,604.29 11,338.27- 2,382.08 12,772.96- 37,349.67 907,659.63 205,872.56
<b>TOTAL DEF TAXES &amp; OTHER</b>	772,586.40	459,861.77	671,895.23-	1,131,757.00
PRIME'S CAP/STOCKHOLDERS EQUITY CONTRIBUTED CAPITAL INVESTMENT IN SUB/MEMBER WITHDRAWALS CAPITAL STOCK ADD'L PAID IN CAPITAL EARNED CAPITAL/RET'D EARNINGS DIVIDENDS Y-T-D NET INCOME (LOSS)	650,000.00 11,409,519.52-    1,000,000.00 604,023.38-	650,000.00 153,062.09- 833,120.52- 35,000.00 4,920,731.51- 10,472,277.88 13,719,136.02- 422,072.51-	11,386,457.83 833,120.52- 25,000.00 4,920,731.51- 10,472,277.88 13,719,136.02-	550,000.00 11,409,519.52-     422,072.51-
TOTAL RETIRE/CAP/NET EARNINGS	10,363,543.30-	8,950,844.77-	2,280,747.66	11,181,592.43-
<b>TOTAL LIABILITIES &amp; EQUITY</b>	91,248.50	2,169,988.33	2,300,956.66	30,978.33-

# **ATTACHMENT C. ECONOMIC FEASIBILITY.10.2 CPA LETTER**

# DECOSIMO

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
**MOORE STEPHENS**  
INTERNATIONAL LIMITED

Joseph Decosimo and Company, PLLC  
Tallan Building  
Suite 800 - Two Union Square  
Chattanooga, TN 37402  
www.decosimo.com

Renee B. Ford, CPA  
Principal  
T: 423.756.7100  
F: 423.756.0510  
E: reneeford@decosimo.com

July 2, 2012

Mr. Mark Farber  
Health Services and Development Agency  
State of Tennessee  
Nashville, Tennessee

Dear Mr. Farber:

Joseph Decosimo and Company, PLLC is the independent accounting firm engaged by Life Care Centers of America, Inc. and its consolidated entities ("the Companies") to conduct an audit of the Companies' consolidated balance sheet and related statements of income, deficit and cash flows. We have conducted such an audit for several years, most recently as of December 31, 2011, the last year for which an audit of the Companies has been completed. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America, as is more fully set forth in our audit report.

From our audits of the Companies, we are aware that from time to time Life Care Centers of America, Inc. has purchased land, constructed and leased nursing facilities. Life Care Centers of America, Inc. informs us that it has applied to the State of Tennessee for a certificate of need in connection with the relocation of a skilled nursing facility in Blount County, with a total estimated cost of approximately \$21.2 million. We understand that the relocation costs are to be bank-financed over five years, requiring total principal and interest payments of approximately \$1.2 million per year and a balloon payment of approximately \$20.3 million which will be refinanced. Management has also informed us that Life Care Centers of America, Inc. anticipates having several new skilled facilities under construction and in the fill-up stages during 2012 and 2013, requiring approximately \$7 - \$8 million of operating capital of the Companies.

We have been asked to provide you with the following information from the Companies' audited financial statements. The net cash flows from operating activities in each of the three years ended December 31, 2009, 2010, and 2011, as stated in the Companies' consolidated statements of cash flows, were substantially in excess of the estimated operating capital needed for the planned new skilled facilities under construction and the annual debt service requirements of the Blount County facility, as indicated above.

Very truly yours,



Renee B. Ford, CPA  
For the firm

RBF/sb

# **ATTACHMENT ORDERLY DEVELOPMENT 7.(b).1 CERTIFICATE OF NEED**



STATE OF TENNESSEE  
HEALTH SERVICES AND DEVELOPMENT AGENCY  
500 Deaderick Street  
Suite 850  
Nashville, Tennessee 37243  
741-2364

June 27, 2012

Cindy S. Cross, Sr. Director of Legal Services  
Life Care Centers of America, Inc.  
3570 Keith Street, NW  
Cleveland, TN 37312

RE: Colonial Hills Nursing Center - CN1202-003A

Dear Ms. Cross:

As referenced in our recent letter, please find enclosed your Certificate of Need for the above-referenced application that was approved at the May 23, 2012, meeting of the Tennessee Health Services and Development Agency.

The Health Services and Development Agency Rules require that an Annual Progress Report be submitted each year and a Final Project Report form is to be submitted within ninety (90) days after completion of a project which shall include completion date, final costs, and other relevant information in regards to the project, pursuant to Public Acts 2002, Chapter No. 780, § 16-11-1609(d). Also required is the registration of certain medical equipment pursuant to Tennessee Code Annotated § 68-11-1607(i), which states "The owners of the following types of equipment shall register such equipment with the health services and development agency: computerized axial tomographers, lithotripters, magnetic resonance imagers, linear accelerators and positron emission tomography." ..... "The survey shall include but not limited to the identification of the equipment and utilization data according to source of payment."

The aforementioned forms can be found on the Agency's website at [www.tennessee.gov/HSDA](http://www.tennessee.gov/HSDA). Should you have any questions or require further information regarding this Certificate, please do not hesitate to contact this office.

Sincerely,

Melanie M. Hill  
Executive Director

MMH/MAB

cc: Teresa Hendricks, Division of Health Statistics, Office of Policy, Planning & Assessment  
Ann R. Reed, Health Care Facilities - Licensure  
Bill Harmon, Director of Engineering, Health Care Facilities



STATE OF TENNESSEE  
Health Services and Development Agency

2012 AUG 14 AM 10 40



Certificate of Need No. **CN1202-003A** is hereby granted under the provisions of T.C.A. § 68-11-1601, *et seq.*, and rules and regulations issued thereunder by this Agency.

To: Colonial Development, Inc.  
3570 Keith Street NW  
Cleveland, TN 37312

For: Colonial Hills Nursing Center

This Certificate is issued for: The renovation of a nursing home. The number of licensed beds will be reduced by 83 from 203 to 120.

On the premises located at: 2034 Cochran Road  
Maryville (Blount County), TN 37803

For an estimated project cost of: \$14,963,593.00

The Expiration Date for this Certificate of Need is

July 1, 2014

or upon completion of the action for which the Certificate of Need was granted, whichever occurs first. After the expiration date, this Certificate of Need is null and void.

Date Approved: May 23, 2012

  
Chairman

Date Issued: June 27, 2012

  
Executive Director

**ATTACHMENT ORDERLY DEVELOPMENT 7.(b).2  
COPY CURRENT LICENSE**

# Board for Licensing Health Care Facilities



State of Tennessee

## DEPARTMENT OF HEALTH

License No. 0000000011

No. Beds 0203

*This is to certify, that a license is hereby granted by the State Department of Health to*

COLONIAL DEVELOPMENT, INC.

to conduct

and maintain a Nursing Home COLONIAL HILLS NURSING CENTER

Located at 2034 COCHRAN ROAD, MARYVILLE

County of BLOUNT, Tennessee.

*This license shall expire* JANUARY 08, 2013 *and is subject to the provisions of Chapter 11, Tennessee Code Annotated. This license shall not be assignable or transferable, and shall be subject to revocation at any time by the State Department of Health, for failure to comply with the laws of the State of Tennessee or the rules and regulations of the State Department of Health issued thereunder.*

*In Witness Whereof, we have hereunto set our hand and seal of the State*  
*this* 1ST JULY, 2012.



By Twinn J. Davis, MPH

DIRECTOR, DIVISION OF HEALTH CARE FACILITIES

By MAJ. Davis

# **ATTACHMENT PROOF OF PUBLICATION**



**NOTIFICATION OF INTENT  
TO APPLY FOR A CERTIFICATE OF**

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. §§8-11-1601 et seq., and the Rules of the Health Services and Development Agency, that the following parties have been selected to receive the Certificate of Need for the proposed project:

Colonial Hills Nursing Center  
a nursing home located at  
2034 Cochran Road,  
Maryville, Tennessee 37803

owned by Colonial Hills Real Estate Investors, LLC and operated by Colonial Development, Inc., with an ownership type of corporation and managed by Life Care Centers of America, Inc., intends to file an application for a Certificate of Need for the relocation and replacement of a nursing home (Colonial Hills Nursing Center) currently located at 2034 Cochran Road, Maryville, Tennessee 37803. The replacement facility will be located on an approximate 10.67 acre site located at 1965 Stewart Lane, Louisville, Tennessee 37777. The number of licensed beds will be 120. No services will be initiated or discontinued and no major medical equipment is requested. The estimated project cost is \$21,194,000; if this application is approved, CN1202-003A for renovation of the existing facility will be relinquished. The anticipated date of filing the application is August 15, 2012. The contact person for this project is Cindy S. Cross, Sr. Director of Legal Transactional who may be reached at Life Care Centers of America, Inc., 3570 Keith Street, NW, Cleveland, TN, 37312, (423) 473-5867. Upon written request by interested parties, a local fact-finding public hearing shall be conducted. Written requests for hearing should be sent to: Health Services and Development.

Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A., § 58-11-1807(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency. August 10, 2012

ATTENTION ADVERTISERS

**NOTICE OF SUBSTITUTE TRUSTEE'S SALE** WHEREAS, the performance of the covenants, terms and conditions of the first mortgage deed of trust between TRACI C HOOVER, HUSBAND AND WIFE, conveying therein described to W. AARON FORTNER as same appear Register's Office of Blount County, on January 5, 2009, 578943, in Book 2217, at Page 1480; and WHEREAS, the said Deed of Trust was last transferred and assigned to BA N.A., who is now the owner of said debt; and WHEREAS, N.A. Foreclose ("Notice") was given in compliance with Tennessee law by publication of the Notice to the parties at least sixty (60) days prior to the date of the Substitute Trustee's Sale. WHEREAS, RECONSTRUCT COMPANY, LLC, having been appointed Trustee by instrument filed for record in the Register's Office of Tennessee NOW, THEREFORE notice is hereby given that address has been declared due and payable, and that the agent, by virtue of the power, duty and authority vested in and Substituted Trustee will, on August 24, 2012, 11:00 AM at the courthouse door where the foreclosed sales are customarily held and best bidder for cash, the following described property, County, Tennessee to wit: Situated in District No. 11 of Tennessee in the City of Rockford and being more particularly as follows: Beginning on an iron pin in the southern right of way of pin being located 165.00 feet, more or less, from the point of in Williams' Mills Road and Oak Street and common corner to leaving said right of way and with Phillips. South 29 degrees 06 minutes 30.25 feet to an iron pin; thence continuing with Phillips, North 74 degrees 32.05 feet to an iron pipe in the western right of way of Old Road; thence with said right of way, a chord of South 15 degrees 59.33 feet to an iron pipe corner to Hurst; thence with Hurst, in the part South 89 degree 07 min. West 176.84 feet to an iron pin; thence with Dyer, North 30 degree 33 min. West 83.85 feet to an iron pin; the right of way of Oak Street; thence with said right of way, North East 45.86 feet to the point of Beginning. Tract 1 is made subject to all applicable restrictions, easements, etc. of record in the Register's Office of Blount County, Tennessee and further subject to a reservation of a 3% well located on the above described property as described in a 150 page 58, in the Register's Office for Blount County, Tennessee. The well located on the above described property as described in a 150 page 58, in the Register's Office for Blount County, Tennessee. The well located on the above described property as described in a 150 page 58, in the Register's Office for Blount County, Tennessee.

Life Care Centers of America

Acct. # 234396

COST OF PUBLICATION \$149.85

2012 AUG 14 AM 10 40

## PROOF OF PUBLICATION

STATE OF TENNESSEE

COUNTY OF BLOUNT

PERSONALLY appeared before me SARA THOMPSON

of Blount County, Tennessee who being duly sworn, made oath that he/she is a representative of the Publisher of THE DAILY TIMES, a newspaper of general circulation, published in the County of Blount and State of Tennessee and that the hereto attached publication appeared in the same on the following dates:

### Notification of Intent

August 10<sup>th</sup>, 2012

## The Daily Times

P.O. BOX 9740, MARYVILLE, TN 37802

(865) 981-1100

Subscribed and sworn to before me on this 10<sup>th</sup> day of August, 2012

Newspaper Representative: Sara Thompson

Notary Public: Rebecca Jane Payne

My Commission Expires: July 3, 2016



**AFFIDAVIT**

2012 AUG 14 AM 10 40

STATE OF TENNESSEE }

COUNTY OF BRADLEY }

Cindy S. Cross, being first duly sworn, says that he/**she** is the applicant named in this application and/or its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

  
SIGNATURE

Sworn to and subscribed before me this 13<sup>th</sup> day of August, 2012 a Notary  
(Month) (Year)

Public in and for the County/State of Bradley County, Tennessee

  
NOTARY PUBLIC

My commission expires May 31, 2016  
(Month/Day) (Year)



# **SUPPLEMENTAL**



- 1. Section A. Item 11 (Medicaid Provider Number) - It is noted that the applicant has lost its Medicare certification, placed all its patients in other facilities and ceased operation on February 2, 2011 of the current dually certified Medicare/Medicaid nursing home facility. The applicant has also requested from the Department of Health that its license be placed in "INACTIVE STATUS" while the proposed replacement is occurring should this CON application be approved. Once the project is completed the applicant will reapply for Medicare certification, but not Medicaid certification. Please discuss the applicant's rationale for not also applying for Medicaid certification.**

Response: The decision to seek only Medicare certification was based on a combination of three factors: (1) the increasing availability of home and community based options for Medicaid patients; (2) the increasing clinical complexity of patients in nursing home, and (3) the impact of the agreed order in the Linton case.

The policy of the State is to increase the availability of home and community based options to nursing home care, which has the effect of diminishing the utilization of nursing homes. The existing facility is closed, and no longer Medicaid certified.

Refraining from seeking Medicaid certification for the replacement facility would appear to be consistent with current state policy.

With the ever-increasing pressure on acute care hospitals to reduce length of stay and minimize readmissions, the demand for skilled nursing home capacity will increase. The applicant decided to focus the replacement facility on skilled care to position the facility to meet the future needs of the community.

Because of the Linton case, it would not be possible to assure the availability of beds for skilled patients if the facility were Medicaid certified. Medicaid certification would compromise the skilled focus of the facility. In addition, Medicaid certification would not support the financial feasibility of a replacement facility with the proposed number of private rooms because of the lower Medicaid reimbursement.

2. **Section B. Item IIA (Project Description) - The applicant's description of existing nursing home resources within the applicant's declared service area (Blount County) indicates there are six (6) nursing homes which had a total bed capacity of 766 nursing home beds and experienced an average occupancy of 93.3% in 2010. According to the *Guidelines for Growth's* Nursing Home Bed Need formula, there is a need for 972 nursing home beds in 2014. Thus, there is a Net Nursing Home Bed Need for Blount County of 206 beds. Given the county's nursing home bed need, high occupancy rate of 93.3%, and the applicant's 2011 occupancy rate of 89.2%, please discuss the applicant's decision to build only 120 beds in the relocated replacement facility.**

Response: Life Care Centers of America, Inc. experience is that the highest level of patient satisfaction and operating efficiency is achieved in a facility containing approximately 120 beds. The six Certificate of Need applications recently filed by Life Care Centers of America, Inc. in Tennessee, and approved by the Health Services and Development for new construction or major renovation of nursing home facilities contained an average of 122 beds with a range of 89 to 159 beds.

If there is a shortage of nursing home beds in Blount County after this facility reopens, Life Care Centers of America, Inc. will study the feasibility of developing an additional nursing home in Blount County.

3. **Section B. Item IIA (Project Description) and Section C. Economic Feasibility Item 1 (Project Cost Chart) - On page 6 of the application the applicant discusses the cost of the proposed project which does not match the cost reflected on the Project Cost Chart. The Total Project Cost reflected on the Project Cost Chart does not equal the sum of the cost items outlined on the Project Cost Chart. Please re-add the sum of the cost items outlined on the Project Cost Chart and resubmit the corrected Project Cost Chart along with a corrected sum on a revised page 6 of the application.**

Response: See Attachment 3.1 and 3.2.

4. **Section C. Economic Feasibility Item 1 (Project Cost Chart) & Architect's Letter - Please note that the TN Department of Health's Board for Licensing Health Care Facilities has adopted for use in reviewing health care construction projects the 2010 AIA Guidelines for Design and Construction of Health Care Facilities. Please resubmit the architect's attestation letter reflecting that the design will be in compliance with the 2010 AIA Guidelines for Design and Construction of Health Care Facilities.**

Response: See Attachment 4.

5. **Section C. Economic Feasibility Item2 (Funding)** The letter from Great Southern Bank is noted, but does not include an amount for the size of the loan. Please resubmit the bank's letter indicated the amount which the bank is willing to loan the applicant for financing the proposed project.  
Response: See Attachment 5

6. **Section C, Contribution to Orderly Development, Item 7 -** The applicant has noted that the current facility is closed at least in part due to loss of Medicare certification. There was considerable discussion at the Agency meeting where 1202-003A was approved. Please outline the steps taken so far and which the applicant plans to take in the future to develop a quality driven culture in the proposed facility.

Response: Life Care Centers of America is committed to being a premier provider of long-term health care. It is our desire to be the facility of choice, in Blount County, and in all communities, in which we operate. Our programs, services and facilities are designed and operated with superior quality in order to satisfy the needs of our residents.

Prior to its closing, approximately six (6) months ago, Colonial Hills Nursing Facility did file a Plan of Corrections wherein it responded with a proposed corrective action to each survey deficiency cited against it. Substantially all of the key leadership positions concerning this facility have changed, and replacements made accordingly.

We believe our residents are our highest priority, and strive towards the preservation of dignity, self-respect and resident rights in a loving and caring environment. We remain steadfast in the resident-centered approach to care in which the total needs of the residents are met.

As was outlined at the earlier Certificate of Need Hearing, in an initiative led by Life Care, the General Assembly in Tennessee adopted legislation, effective July 1, 2012, that permits nursing facilities to employ physicians, Life Care plans to employ a full time physician at the new facility, and it is its goal to employ full time physicians in all its facilities throughout not only Tennessee but in all states in which we serve. In fact, we have instituted a corporate physician initiative program to ensure comprehensive and consistent physician oversight for providing the highest quality of care to our patients. Our goal is to improve the coordination of care across the interdisciplinary team through better communication encompassing all transitions of care. As a result, we are confident, that the replacement facility for Colonial Hills and other Life Care facilities will be a catalyst of change in our profession.

- 7. Progress update Report - According to HSDA records, Life Care Centers of America affiliated facilities have outstanding CONs including:**

**A) Chattanooga Medical Investors (CN1103-009A)**

**B) Dayton Medical Investors (CN1101-004A)**

**Please provide a two-three sentence update on the progress on each of these projects.**

Response: Chattanooga Medical Investors (CN1103-009A) - Construction is approximately 70 percent complete and is expected to be completed in January 2013. The expected project cost is expected to be lower than contained in the application.

Dayton Medical Investors (CN1101-004A) - Construction is approximately 50 percent and is expected to be completed in the early part of 2013. The project is expected to be completed within budget.

**ATTACHMENT 3.1**  
**REVISED PROJECT COST CHART**

2012 AUG 22 PM 3: 43

## PROJECT COSTS CHART

A. Construction and equipment acquired by purchase	
1. Architectural and Engineering Fees	\$ 740,000
2. Legal, Administrative (Excluding CON Filing Fee), Consulting Fees	\$ 60,000
3. Acquisition of Site	\$ 1,100,000
4. Preparation of Site (including demolition)	\$ 1,500,000
5. Construction Costs	\$ 13,904,000
6. Contingency Fund	\$ 500,000
7. Fixed equipment (Not included in Construction Contract)	\$
8. Moveable Equipment (List all equipment over \$50,000)	\$ 1,900,000
9. Other (Specify) <u>permits, review fees, taxes</u>	\$ 120,000
B. Acquisition by gift, donation, or lease:	
1. Facility (FMV of Lease)	\$
2. Building only	\$
3. Land only	\$
4. Equipment	\$
5. Other (Specify) ( )	\$
C. Financing Costs and Fees	
1. Interim Financing	\$
2. Underwriting Costs	\$ 420,000
3. Reserve for One Years Debt Service	\$ 750,000
4. Other <u>Interest Expense During Construction</u>	\$ 200,000
D. Estimated Project Cost (A+B+C)	\$ 21,194,000
E. CON Filing Fee	\$ 45,000
F. Total Estimated Project Cost (D+E)	\$ 21,239,000

**ATTACHMENT 3.2**  
**REVISED PAGE 6**

**ATTACHMENT 4**  
**REVISED ARCHITECT'S LETTER**





franklin|architects

142 N Market St., Chattanooga, TN 37405

423.266.1707

July 3, 2012

Mr. Scott Gooch  
Vice President of Construction Services  
Life Care Centers of America, Inc.  
3001 Keith St. NW  
Cleveland, TN 37312

Re: Blount Co. Skilled Nursing Facility

Mr. Gooch:

We have reviewed the codes required for the proposed new Skilled Nursing Facility, located in Blount County, Tennessee. Since there are two sets of codes required at this location, we will use the most stringent where conflicts occur. The following codes are adopted by the reviewing authorities:

**Tennessee Department of Health:**

1. 2006 International Building Code, (excluding Chapters 11 and 27).
2. 2006 International Plumbing Code.
3. 2006 International Mechanical Code.
4. 2006 International Fuel Gas Code.
5. 2006 NFPA 1, (excluding NFPA 5000).
6. 2006 NFPA 101 Life Safety Code.
7. 2005 National Electric Code.
8. 1999 North Carolina Accessibility Code, (with 2004 Amendments).
9. Americans with Disability Act (ADA), (with 2002 Amendments).
10. 2010 AIA Guidelines for Design and Construction of Health Care Facilities.
11. 2004 Americans with Disabilities Act (ADA).
12. 2005 US Public Health Service Food Code.

**Blount County:**

1. 2006 International Building Code.
2. 1999 North Carolina Handicap Code.
3. 2006 International Plumbing Code.
4. 2006 International Mechanical Code.
5. 2006 International Fuel Gas Code.
6. 2006 International Energy Conservation Code.
7. 2006 International Fire Code.
8. 2005 National Electric Code.
9. Current Blount County Zoning Regulations.

If you have any further questions, please feel free to contact us at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Wyatt Leonard". The signature is stylized with a large, looped "R" and a cursive "Wyatt Leonard".

R. Wyatt Leonard, AIA  
Project Manager

AFFIDAVIT

2012 AUG 22 PM 3:43

STATE OF TENNESSEE

COUNTY OF BRADLEY

NAME OF FACILITY: Colonial Hills Nursing Center

I, CINDY S. CROSS, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Cindy S. Cross  
Signature/Title  
Assistant Secretary

Sworn to and subscribed before me, a Notary Public, this the 21<sup>st</sup> day of August, 2012, witness my hand at office in the County of Bradley, State of Tennessee.

Jaime E. Sipe  
NOTARY PUBLIC

My commission expires July 2, 2013.

HF-0043

Revised 7/02





# LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

2012 AUG -9 AM 10:00

The Publication of Intent is to be published in The Daily Times which is a newspaper of  
(Name of Newspaper)  
general circulation in Blount, Tennessee, on or before August 10, 2012,  
(County) (Month / day) (Year)  
for one day.

=====

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Colonial Hills Nursing Center  
(Name of Applicant)

Nursing Home  
(Facility Type-Existing)

owned by: Colonial Hills Real Estate Investors, LLC and operated by Colonial Development, Inc., with an ownership type of corporation and managed by: Life Care Centers of America, Inc. intends to file an application for a Certificate of Need for the relocation and replacement of a nursing home (Colonial Hills Nursing Center) currently located at 2034 Cochran Road, Maryville, Tennessee 37803. The replacement facility will be located on an approximate 10.67 acre site located at 1965 Stewart Lane, Louisville, Tennessee 37777. The number of licensed beds will be 120. No services will be initiated or discontinued and no major medical equipment is requested. The estimated project cost is \$21,194,000. If this application is approved, CN1202-003A for renovation of the existing facility will be relinquished.

The anticipated date of filing the application is: August 15, 2012.

The contact person for this project is Cindy S. Cross Sr. Director of Legal Transactional  
(Contact Name) (Title)

who may be reached at: Life Care Centers of America, Inc. 3570 Keith Street, NW  
(Address)

Cleveland  
(City)

Tennessee  
(State)

37312  
(Zip Code)

423-473-5867  
(Area Code / Phone Number)

Colonial Development, Inc.

By: Cindy S. Cross  
(Signature) Cindy S. Cross, Assistant Secretary

8/8/12  
(Date)

cindy\_cross@lcca.com  
(E-mail Address)

=====

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

**Health Services and Development Agency  
Andrew Jackson Building  
500 Deaderick Street, Suite 850  
Nashville, Tennessee 37243**

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The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

**CERTIFICATE OF NEED  
REVIEWED BY THE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH STATISTICS**

615-741-1954

2012 OCT 22 PM 2: 15

**DATE:** October 31, 2012

**APPLICANT:** Colonial Hills Nursing Center  
1965 Stewart Lane  
Louisville, Tennessee 3777

**CONTACT PERSON:** Cindy A. Cross, Sr. Director of Legal Services  
Life Care Centers of America, Inc.  
3570 Keith Street NW  
Cleveland, Tennessee 37312

**COST:** \$21,239,000

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Health Statistics, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's Health: Guidelines for Growth, 2000 Edition*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

**SUMMARY:**

The applicant, Colonial Hills Nursing Center, located in Louisville (Blount County), Tennessee, seeks Certificate of Need (CON) approval for the relocation and replacement of a nursing home currently located at 2034 Cochran Road, Maryville, Tennessee. The replacement facility will be located on an approximate 10.67 acre site at 1965 Stewart Lane in Louisville. The number of licensed beds will be 120. No services will be initiated or discontinued and no major medical equipment is requested. If this application is approved, CN1202-003A for renovation of the existing facility will be relinquished.

In addition to being approved for renovation of the existing facility, CN1202-003A also was approved to reduce the number of licensed beds from 203 to 120 beds. If this application is approved, the number of licensed beds will remain at 120 beds. There will be 80 private rooms and 20 semi-private rooms. Each resident will have a direct phone line and TV. Colonial Hills Nursing Center will offer a variety of amenities. These include three dayrooms, an activity room, ice cream and gift shop, library, beauty shop, outdoor courtyards, walking paths, gazebos, fine dining, and a private dining room.

Large therapy spaces will be provided. Physical therapy, speech therapy, and occupational therapy services will be offered. Private treatment rooms will be available. State of the art therapy equipment will be included in the FF&E package.

The facility will be constructed under the codes adopted by the local municipality (the International Building Code) and the Tennessee Department of Health (the Standard Building Code). As defined by the 1999 Standard Building Code, the occupancy for this building will be Institutional-Unrestrained, and the type of construction will be Type V protected-fully sprinklered.

The proposed nursing home will be a 79,000 square foot facility with a construction cost of \$13,904,000 or \$176 per square foot. HSDA reports a median cost of new nursing home construction from 2008 through 2010 of \$172.75 per square foot.

Colonial Hills Nursing Center is owned by Colonial Development, Inc., and is managed by Life Care Center of America, Inc. Both corporations are incorporated in Tennessee with headquarters in Cleveland, Tennessee and owned (100%) by Forrest L. Preston is the Chairman and sole

shareholder of Life Care Center of America, Inc. and Colonial Development, Inc. Forrest L. Preston is also involved in the ownership and management of five independent/assisted living facilities within the State of Tennessee. Life Care Centers of America, Inc. (Life Care) manages approximately 220 nursing centers in 28 states. Life Care operates and/or manages 26 nursing facilities in the State of Tennessee.

The total estimated project cost is \$21,239,000 and will be funded 100% through a commercial loan from Great Southern Bank as documented in a revised financing letter in Attachment 5 of Supplemental 1 in a letter from the Vice President of Great Southern Bank.

### GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2000 Edition*.

#### NEED:

The applicant's service area is Blount County.

The following charts illustrate the 2012 and 2016 total population and age 65 and older population projections for the applicant's service area.

#### Service Area Total Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
Blount	126,119	131,158	4.0%

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision*, Tennessee Department of Health, Division of Health Statistics

#### Service Area Age 65 and Older Population Projections for 2012 and 2016

County	2012 Population	2016 Population	% Increase/ (Decrease)
Blount	20,002	22,642	13.2%

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision*, Tennessee Department of Health, Division of Health Statistics

The following chart illustrates the 2010 nursing home utilization for Blount County.

#### Blount County Nursing Home Utilization 2010

Nursing Home	Licensed Beds	SNF Beds-Medicare	SNF/NF Beds-Dually Certified	NF Beds-Medicaid	Licensed Only Non Certified	NF-ADC (Medicaid/Level I Only)	SNF Medicare Level II ADC	NF-ADC	Licensed Occupancy
Asbury Place at Maryville	181	0	64	117	0	96	20	136	88.8%
Maryville Healthcare & Rehab	187	0	187	0	0	68	31	138	93.2%
Colonial Hills Nursing Center	203	0	203	0	0	109	41	145	95.5%
Fairpark Healthcare	75	0	75	0	0	42	11	58	95.9%
Blount Memorial Trans. Care	76	76	0	0	0	0	63	0	94.8%
Shannondale of Maryville	44	44	0	0	0	0	4	38	96.6%
<b>Total</b>	<b>766</b>	<b>120</b>	<b>529</b>	<b>117</b>	<b>0</b>	<b>315</b>	<b>170</b>	<b>515</b>	<b>93.4%</b>

Source: *Joint Annual Report of Nursing Homes 2010*, Tennessee Department of Health, Division of Health Statistics

There six nursing homes, with a total of 766 beds, located in the service area of Blount County. During 2010, the six nursing homes reported an average occupancy rate of 93.3%.

The applicant's proposed site is much better suited for use than the current site the applicant had planned to renovate. The proposed new site has the following advantages over the existing site: (1) increased accessibility, (2) new construction verses renovation, and (3) increased visibility. These advantages are reviewed in detail in Section C of the application. In addition, the new site

is suited for the potential development of a Continuum of Care Retirement Community (CCRC).

The proposed facility will treat a high volume of rehabilitation patients. During the second year of operation, approximately 80% of the patient days are expected to be rehab. Most all of these patients will be admitted directly from a hospital. The proposed site is approximately 20 minutes closer to Knoxville hospitals than the current site and is approximately three minutes closer to Blount Memorial Hospital. During 2010, over 33% of Blount County residents were admitted to a hospital in Knoxville. Blount County residents who need post-acute care will be well served by the facility at the proposed location.

The approved application contained 67,689 (90%) square feet of renovation and only 7,914 (10%) square feet on new construction. This application is for all new construction.

The current site is located in a residential area and is not visible from any major highway. The proposed site is a short distance from I-140 and SR 333 and can be seen from both of these highways.

In addition, the availability of land adjacent to the proposed site creates the opportunity to develop a CCRC in conjunction with the nursing home facility.

According to the applicant, as a result of a survey conducted on December 4, 2011, the facility's Medicare certification was terminated by CMS effective January 7, 2012. The applicant reports the facility has appealed this action by CMS on the basis that the alleged deficiencies did not warrant the sanctions imposed and there was no legal or factual basis for the CMS action. The appeal, however, does not stay the loss of certification, and it is not possible to operate the facility pending outcome of the appeal. The applicant states all facility residents have been relocated and the facility temporarily suspended operations on February 2, 2012. The facility has submitted a request to the Board for Licensing Healthcare Facilities that the facility license be placed in an inactive status. This request will be considered by the Board at its next meeting on May 2, 2012.

The applicant states the temporary closure of the facility presents the opportunity for the facility to undertake a much-needed, construction of a new facility which could not be accomplished while the facility is occupied. The project will result in the total number of beds being reduced from 203 to 120, but the number of private rooms will increase from 23 to 90. This is consistent with community expectations for a modern nursing home facility.

In Supplemental 1, the applicant was questioned by HSDA staff regarding their rationale for reapplying for Medicare certification but not Medicaid certification once the project is completed. The applicant responded that the decision to seek only Medicare certification was based on a combination of three factors: 1) the increasing availability of home and community based options for Medicaid patients; 2) the increasing clinical complexity of patients in nursing homes; and 3) the impact of the agreed order in the Linton case.

According to the applicant, the policy of the State of Tennessee is to increase the availability of home and community based options to nursing home care which has the effect of diminishing the utilization of nursing homes. The applicant states the existing facility is closed and no longer Medicaid certified. The applicant believes refraining from seeking Medicaid certification for the replacement facility would appear to be consistent with current State policy.

Additionally, the applicant states with the ever-increasing pressure on acute care hospitals to reduce length of stay and minimize re-admissions, the demand for skilled nursing home capacity will increase. The applicant decided to focus the replacement facility on skilled care to position the facility to meet the future needs of the community.

Because of the Linton Case, the applicant states it would not be possible to assure the availability of beds for skilled patients if the facility was Medicaid certified. Medicaid certification would

compromise the skilled focus of the facility. In addition, the applicant believes Medicaid certification would not support the financial feasibility of a replacement facility with the proposed number of private rooms because of the lower Medicaid reimbursement.

Also in Supplemental 1, the applicant was asked to discuss their decision to reduce beds in the newly renovated facility despite the high occupancy (93.4%) rate of the existing 6 nursing homes in Blount County. The applicant responded that it is Life Care Center of America, Inc.'s experience that the highest level of patient satisfaction and operating efficiency is achieved in a facility containing approximately 120 beds. The applicant states the six CONs recently filed by Life Care Centers of America, Inc. in Tennessee and approved by HSDA for new construction or major renovation of nursing home facilities, contained an average of 122 beds with a range of 89 to 159 beds.

The applicant states if there is a shortage of nursing home beds in Blount County after this facility reopens, they will study the feasibility of developing an additional nursing home in Blount County.

The applicant projects 13,707 patient days in year one and 35,002 patient days in year two of the project.

#### **TENNCARE/MEDICARE ACCESS:**

The applicant will seek certification for Medicare patients and is appealing their loss of Medicaid and Medicare certification currently. The applicant states they will not be a TennCare provider.

The following chart illustrates the TennCare enrollees in the applicant's service area.

<b>TennCare Enrollees in the Proposed Service Area</b>			
<b>County</b>	<b>2012 Population</b>	<b>TennCare Enrollees</b>	<b>% of Total Population</b>
Blount	126,119	18,749	14.9%

Source: *Tennessee Population Projections 2000-2020*, February 2008 Revision Tennessee Department of Health, Division of Health Statistics and *Tennessee TennCare Management Information System, Recipient Enrollment*, Bureau of TennCare,

The applicant projects Medicare revenues of \$4,664,907 or 68% of total gross revenues in year one and \$11,784,659 or 66% of total gross revenues in year two of the project.

#### **ECONOMIC FACTORS/FINANCIAL FEASIBILITY:**

In the Project Costs Chart located in Supplemental 1, the total estimated project cost is \$21,239,000, which includes \$740,000 for architectural and engineering fees; \$60,000 for legal, administrative, and consulting fees; \$1,100,000 for acquisition of site; \$1,500,000 for preparation of site; \$13,904,000 for construction costs; \$500,000 for contingency fund; \$1,900,000 for moveable equipment; \$120,000 for permits, taxes and fees; \$420,000 for underwriting costs; \$750,000 for reserve for one years debt service; \$200,000 for interest expense during construction; and \$45,000 for CON filing fees.

In the Historical Data Chart, the applicant reported 71,262, 70,181, and 66,114 patient days in 2009, 2010, and 2011 with gross operating revenues of \$17,512,446, \$17,884,777, and \$17,388,015 each year, respectively. Contractual adjustments, provisions for charity care and bad debt reduced net operating revenues to \$14,559,694, \$14,875,078, and \$14,654,342 each year. The applicant reports management fees to affiliates of \$727,985, \$743,754, and \$732,717 each year. The applicant reports a net operating income/(loss) of \$1,126,433, \$1,153,423, and (\$431,097) each year, respectively.

In the Projected Data Chart, the applicant projects 13,707 patient days in year one and 35,002 patient days in year two with gross operating revenues of \$6,826,311 and \$17,873,965 each year, respectively. Contractual adjustments, provisions for charity care and bad debt reduced net operating revenues to \$5,536,414 and \$14,148,984 each year. The applicant projects \$279,321



and \$709,949 in management fees to affiliates each year, respectively. The applicant projects a net operating loss of (\$2,335,500) in year one and (\$359,663) in year two of the project.

The applicant projects an average year one gross charge per day of \$498.01, with an average deduction of \$94.10, resulting in an average net charge of \$403.91. In year two, the applicant projects an average charge per day of \$510.66, with an average deduction of \$106.42, resulting in an average net charge of \$404.24. The applicant compares daily private and semi-private room charges with other service area providers on page 31 of the application.

According to the applicant, two alternatives were considered, either proceed with the project which was authorized by CN1202-003A; or move Colonial Hills Nursing Center to the proposed site. The approved CON was for a major renovation of the existing facility. This option has a lower project cost than the relocation to the proposed site. Although the cost of renovation is lower than this proposed project, the proposed project is a better option to provide nursing home care to the residents of Blount County.

**CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:**

The applicant reports that transfer, managed care, ancillary care, and hospice agreements were in place and will be updated before the reopening of the proposed facility.

The applicant reports the effects on the health care system of the relocation of Colonial Hills Nursing Center are only positive. The implementation of this project will increase the accessibility to nursing home care to residents of the service area. A new facility will be constructed and visibility of the facility will be increased. The charges at Colonial Hills Nursing Center are not anticipated to increase as a result of this project.

The applicant reports that during the second year of operation, the patient care staffing (clinical) is expected to be 93.9 FTEs. This staff includes 7.8 registered nurses, 18.6 licensed practical nurses, 32.0 certified nurses' aides, 15.6 physical therapists, 2.9 speech therapists, 14.4 occupational therapists, and 2.7 social workers. The planned direct nursing hours are 3.47 hours per patient day.

The applicant is not planning to participate in the training of students.

Colonial Hills Nursing Center will be licensed by the Tennessee Department of Health, Board for Licensing Healthcare Facilities. The applicant stated in a phone conversation with the Division of Policy, Planning, and Assessment staff that they will be applying for a new license due to the relocation and replacement of Colonial Hills Nursing Center.

The applicant will be certified by the Centers for Medicare and Medicaid Services (CMS). The applicant was previously accredited by the Joint Commission and anticipates seeking accreditation again.

In response to HSDA questions concerning the facility's closing at least in part due to the loss of Medicare certification, the applicant responded as follows:

"Life Care Centers of America is committed to being a premier provider of long-term health care. It is our desire to be the facility of choice in Blount County and in all communities in which we operate. Our programs, services, and facilities are designed and operated with superior quality in order to satisfy the needs of our residents".

"Prior to its closing, approximately six months ago, Colonial Hills Nursing Facility did file a Plan of Corrections wherein it responded to with a proposed corrective action to each survey deficiency cited against it. Substantially all of the key leadership positions concerning this facility have changed, and replacements made accordingly".

## SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2000 Edition*.

### CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

*There are no bed additions but a bed reduction from 203 to 120 beds.*

2. For relocation or replacement of an existing licensed health care institution:

- a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

*The applicant has recently received a CON for the major renovation of its existing facility. The construction cost for the renovation was estimated to be \$9,965,000 or \$131.81 per square foot. A new facility will be built on the proposed site. The estimated construction cost for the new facility is \$13,904,000 or \$176 per square foot.*

*However, the relocation option offers the following advantages: (1) better accessibility; (2) all new construction; and (3) increased visibility. In addition, the new site is better suited for the potential development of a CCRC.*

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

*The applicant states the nursing homes in Blount County have historically reported high occupancy rates. Between 2008 and 2010, these nursing homes reported a 93.4% average occupancy rate.*

*Colonial Hills Nursing Center has historically run a high census. The average daily census and occupancy rates for the past four years are presented in the following table.*

<b>Colonial Hills Nursing Center</b>		
<b>Year</b>	<b>Average Daily Census</b>	<b>Average Occupancy Rate</b>
2008	196.6	96.8%
2009	195.2	96.2%
2010	192.3	94.7%
2011	181.1	89.2%

3. For renovation or expansions of an existing licensed health care institution:

- a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

*The applicant reports all of the nursing homes in the service area are highly utilized, 93.2 percent in 2010. The population of Blount County is aging. Between 2012 and 2015, the over 60 year age group is expected to increase by 9%. This increase would further increase the demand for nursing home services in the service area.*

- b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

*This criterion is not applicable. This project is for the replacement and relocation of a nursing home.*